

# Annual Financial Statements - Contents

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## Directors' Responsibility Statement

### To the members of FNB Namibia Holdings Limited

These Consolidated and Company Annual Financial Statements are the responsibility of the company's directors. We also acknowledge responsibility for establishing accounting procedures that provide for the maintenance of documentation sufficient to support the Consolidated Annual Financial Statements. These Consolidated Annual Financial Statements present fairly the financial position, results of operations and cash flows of the Group and Company in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies' Act of Namibia and have been prepared on basis consistent with those of the prior year, except where specifically disclosed in the Consolidated Annual Financial Statements. The Consolidated Annual Financial Statements incorporate full and responsible disclosure in line with the Group's philosophy on corporate governance and as required by the Namibian Stock Exchange. The directors have reviewed the appropriateness of the accounting policies, and concluded that estimates and judgements are prudent. The directors report that the Group's internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of assets and to prevent and detect fraudulent financial reporting. Such controls are based on established written policies and procedures. They are implemented by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the Group.

The board members and employees are required to maintain the highest ethical standards and the Group's business practices are required to be conducted in a manner that is above reproach. The board has adopted and is committed to the principles in the King II report on Corporate Governance.

The board is responsible for internal controls. The controls throughout the Group are directed towards risk areas. These areas are identified by operational management, confirmed by Group management and tested by the internal auditors. All controls relating to these critical risk areas are closely monitored and subject to audit.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these internal financial controls occurred during the year.

The directors have reviewed the Group's budget for the year to 30 June 2008. On the basis of this review and in the light of the current financial position, the directors have no reason to believe that FNB Namibia Holdings Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The Group's external auditors, Deloitte & Touche, have audited the financial statements and their report appears on page 41.

The Consolidated Annual Financial Statements of the Group and Company, which appear on pages 37 to 126 have been approved by the board of directors and are signed on its behalf by:



**H-D Voigts**  
*Chairman*



**Adv VR Rukoro**  
*Chief Executive Officer*

Windhoek  
16 August 2007

## Report of the Audit Committee to Shareholders

The Audit Committee comprises of a majority of independent non-executive directors and it meets no less than four times a year. This committee assists the board in observing its responsibility for ensuring that the Group's financial and computer systems provide reliable, accurate and up-to-date information to support the current financial position and that the published Consolidated Annual Financial Statements represent a fair reflection of its financial position. It also ensures that appropriate accounting policies, control and compliance procedures are in place. The internal and external auditors attend its meetings and have unrestricted access to the chairman of the committee.

### **The primary objectives of the committee are:**

1. To assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business;
2. To provide a forum for communication between the board of directors, management and the internal and external auditors; and
3. To introduce such measures as in the committee's opinion may serve to enhance the credibility and objectivity of the Consolidated Annual Financial Statements and affairs of the Group.

The committee has met its objectives and has found no material weakness in controls, and is satisfied with the level of disclosure to it and to the stakeholders.



**H W P Böttger**  
*Chairman*

Windhoek  
16 August 2007

# Statement of Actuarial Values of Swabou Life Assurance Company Limited

as at 30 June

N\$ thousand	2007	2006
A brief summary of the financial position as at this date is as follows:		
Policyholders' Fund	188 215	147 305
Other liabilities	13 543	12 565
Capital Adequacy Requirement	24 097	29 908
Free assets	86 767	53 135
Total funds (at actuarial value)	312 622	242 913
The above split may also be represented by the following items:		
Financial Soundness Liabilities	201 758	159 870
Shareholders' funds	6 000	6 000
Free reserves for published financials	104 864	77 043
Total funds (at actuarial value)	312 622	242 913

The movement in the Free Reserves is an increase of N\$27 821 000

## Certification

I have conducted an actuarial valuation of the Swabou Life Assurance Company Limited according to generally accepted actuarial standards as at 30 June 2007, and certify that the Company was financially sound at that date.

I am satisfied that the statement of actuarial values of assets and liabilities, read together with the financial statements, fairly presents the financial position of the Company.



**Jacques Malan**

*Fellow of the Institute of Actuaries*

*Statutory Actuary*

# Independent Auditor's Report to the Members of FNB Namibia Holdings Limited

We have audited the annual financial statements and group annual financial statements of FNB Namibia Holdings Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 30 June 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 126.

## Directors' Responsibility for the Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the

appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and the Group at 30 June 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act in Namibia.



### Deloitte & Touche

*Registered Accountants and Auditors  
Chartered Accountants (Namibia)*

### Per VJ Mungunda

*Partner*

PO Box 47  
WINDHOEK  
21 August 2007

**Regional executives:** G Gelink (Chief Executive),  
A Swiegers (Chief Operating Officer), TJ Brown

**Resident partners:** VJ Mungunda (Managing  
Partner), RH McDonald, DJ Celliers, J Kock

## Directors' Report

The directors present their report, which forms part of the Annual Financial Statements of the Group and of the Company for the year ended 30 June 2007.

### Nature of business

The Company acts as an investment holding company and the main investments are the 100% shareholding in:

- **First National Bank of Namibia Limited:** a registered bank offering a full range of banking services;
- **Swabou Life Assurance Company Limited:** a life assurance company;
- **Swabou Insurance Company Limited:** a short-term insurance company;
- **Talas Properties (Windhoek) (Propriety) Limited:** a property-owning company;
- **First National Asset Management and Trust Company of Namibia (Proprietary) Limited:** a registered trust company involved in the administration of deceased estates; and
- **FNB Namibia Unit Trusts Limited:** a unit trusts management company.

### Share capital

The Company's authorised share capital remained unchanged at N\$5 million.

The Company's authorised share capital at year-end consists of 990 000 000 (2006: 990 000 000) ordinary shares of 0,5 cents each and 10 000 000 (2006: 10 000 000) cumulative convertible redeemable preference shares of 0,5 cents each.

The issued ordinary share capital remained unchanged at 267 593 250 ordinary shares and two cumulative convertible redeemable preference shares.

At the annual general meeting to be held on 28 November 2007, members will be asked to consider an ordinary resolution placing the number of un-issued ordinary and preference shares, exclusive of the number of shares reserved for purposes of the share incentive scheme as at that date, under the control of the directors as is currently the case, until the next annual general meeting.

### Share analysis – ordinary shares

Based on information disclosed by the Namibian Stock Exchange and investigations conducted on behalf of the Company, the following shareholders have a beneficial

interest of 5% or more in the issued ordinary shares of the Company:

FirstRand Bank Holdings Limited .....	59.2% (2006: 60%)
Government Institutions Pension Fund .....	16.7% (2006: 16.7%)

A detailed analysis of shareholders is set out on page 9.

### Share analysis – preference shares

RMB-SI Investments (Proprietary) Limited .....	100% (2006: 100%)
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### FNB Share Incentive Scheme

No new shares were allocated during the year by the Company to the Share Incentive Trust (2006: nil), while the Trust bought 24 077 new shares in the open market during the year (2006: nil). The total number of shares held by the Share Incentive Trust at 30 June 2007 amounts to 3 270 372 (2006: 3 246 295). Also refer to note 9.3 in this regard.

### Directors interest in FNB Namibia Holdings Limited

Details of the directors' interest in the issued ordinary shares of FNB Namibia Holdings Limited are reflected in note 7.3 to the Annual Financial Statements.

### Interest of directors

At no time during the financial year were any contracts of significance entered into relative to the Group's business in which a director had an interest.

### Group results

The financial statements on pages 37 to 126 set out fully the financial position, results of operations and cash flows of the Company and the Group. Your attention is also drawn to the Chairman's report, the Chief Executive Officer's report and the Chief Financial Officer's report on our financial results on pages 26 to 31.

## Directors' Report (continued)

N\$ thousand

2007

2006

### Dividends

The following dividends were declared in respect of the current and previous financial years:

#### Ordinary dividends

Dividend No. 22 of 17.0 cents per ordinary share to shareholders registered on 17 March 2006.

45 491

Dividend No. 23 of 23 cents per ordinary share to shareholders registered on 23 September 2006.

61 546

Special dividend No. 24 of 93 cents per ordinary share to shareholders registered on 16 March 2007.

248 862

Dividend No. 25 of 21 cents per ordinary share to shareholders registered on 16 March 2007.

56 195

Dividend No. 26 of 26 cents per ordinary share to shareholders registered on 22 September 2007.

69 574

Total distribution for the 12 months of 140 cents per ordinary share (2006 : 40 cents per ordinary share)

374 631

107 037

#### Preference dividends

Dividend No. 2

1 331

Dividend No. 3

1 107

Total preference dividends

1 107

1 331

### Directorate

At the Group's annual general meeting held on 29 November 2006, Mr J K Macaskill, Mr H-D Voigts and Ms I I Zaamwani-Kamwi, who retired by rotation in accordance with the provisions of the Company's Articles of Association, made themselves available for re-election and were duly re-elected. The appointment of the directors who were appointed during the previous financial year and who also retired in accordance with the provisions of the Company's Articles of Association were also ratified.

They are:

- C L R Haikali;
- M N Ndilula;
- S H Moir;
- Dr M T Lategan; and
- Adv V R Rukoro

The composition of the board of FNB Namibia Holdings Limited is as follows:

- H-D Voigts (Chairman)
- Adv V R Rukoro (Chief Executive Officer)
- J K Macaskill \*
- H W P Böttger
- P T Nevonga
- I I Zaamwani-Kamwi (Ms)
- Dr M T Lategan\* (Resigned 30 June 2007)
- J R Khethe\* (Appointed 1 July 2007)
- S H Moir \*
- C L R Haikali
- M N Ndilula

\* South African

All directors appointed since the last annual general meeting have to be confirmed at the next annual general meeting.

## Directors' Report (continued)

### Directors' emoluments

Directors' emoluments are disclosed in note 7 to the Annual Financial Statements.

### Management by third parties

None of the business of the Company or of any subsidiary has been managed by a third party or by a company in which a director had an interest during this financial year.

### Insurance

Comprehensive cover in respect of the bankers' bond, computer crime and professional indemnity risk is in place.

### Property and equipment

There was no material change in the nature of property and equipment or in the policy regarding its use during the year. The impact of the change in residual values of properties is explained in note 19 to the Annual Financial Statements.

### Holding company

The holding company of FNB Namibia Holdings Limited is FirstRand Bank Holdings Limited and its ultimate holding Company is FirstRand Limited, both of which are incorporated in the Republic of South Africa.

### Subsidiaries

Interest in and aggregate profits of subsidiaries are set out in note 18 to the Annual Financial Statements.

### Company secretary and registered offices

#### Company secretary

- Mr Brian Katjaerua (Appointed 13 August 2006)  
(Resigned 16 August 2007)
- Conville Britz (Appointed 16 August 2007)

#### Registered office

209 Independence Avenue  
Windhoek

#### The postal address

P O Box 195  
Windhoek  
Namibia.

### Events subsequent to the balance sheet date

Subsequent to year-end FNB Namibia Holdings sold 35% of its shareholding in Swabou Life Assurance Company Limited and 49% of its shareholding in Swabou Insurance Company Limited to Momentum Group Limited and FirstRand STI Holdings Limited respectively. There are no other material events subsequent to the balance sheet date to report.



# Accounting Policies

## 1. Introduction

FNB Namibia Holdings Group ("the Group") is an integrated financial services Group consisting of banking, insurance, asset management and unit trusts management.

The Group adopts the following accounting policies in preparing its consolidated annual financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

## 2. Basis of presentation

The Group's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities.

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments at fair value through profit and loss;
- investment properties valued at fair value; and
- policyholder liabilities under insurance contracts that are valued in terms of Financial Soundness Valuation ("FSV") basis as outlined below.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Groups accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 30.

All monetary information and figures presented in these financial statements are stated in thousand of Namibia Dollar (N\$ '000), unless otherwise indicated.

## 3. Consolidation

The consolidated annual financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The

Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal or from the date that the Group ceases to control.

The Group consolidates a special purpose entity ("SPE's") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 4. Associates

Associates are entities in which the Group holds an equity interest of between 20% and 50% or over which it has the ability to exercise significant influence, but does not control. Investments acquired and held exclusively with the view of disposal in the near future (12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates in its consolidated annual financial statements using the equity accounting method, from the effective date of acquisition

## Accounting Policies (continued)

to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates. Reserves include the Group's share of post-acquisition movements in reserves of associates. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associate.

The Group discontinues equity accounting when the carrying amount of the investment in an associate reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

After discontinuing equity accounting the Group applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate as well as other exposures to the investee. Goodwill included in the carrying amount of the investment in associate is assessed for impairment in accordance with IAS 36 as part of the entire carrying value of the investment in the associate.

The Group increases the carrying amount of investments with its share of the associate's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Groups interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 5. Interest income and interest expense

The Group recognises interest income and interest expense in the income statement for all interest-bearing instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts

through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, pre-payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the Group suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

### 6. Trading income

The Group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value through profit and loss in trading income as it is earned.

### 7. Fee and commission income

The Group generally recognises fee and commission income on an accrual basis when the service is rendered.

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

## Accounting Policies (continued)

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

### 8. Dividend income

The Group recognises dividends when the Group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

### 9. Foreign currency translation

#### 9.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated annual financial statements are presented in Namibia Dollars ("N\$"), which is the functional and presentation currency of the holding company of the Group.

#### 9.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale, are not reported as part of the fair value gain or loss in equity, but are recognised as a translation gain or loss in the income statement when incurred.

Translation differences on non-monetary items, classified as available-for-sale, such as equities are

included in the non-distributable reserves in equity when incurred.

### 10. Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

### 11. Direct and indirect taxes

The tax expense represents the sum of the tax currently payable and deferred tax. Direct taxes comprise Namibian corporate tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and stamp duties. Indirect taxes are disclosed separately from direct tax in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Group operates.

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Group recognises deferred tax assets if the directors of the Group consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward.

## Accounting Policies (continued)

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

### 12. Recognition of assets

#### 12.1 Assets

The Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

#### 12.2 Contingent assets

The Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control.

### 13. Liabilities, provisions and contingent liabilities

#### 13.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in same class of obligations may be small.

#### 13.2 Contingent liabilities

The Group discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

### 14. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks;
- balances guaranteed by central banks; and
- balances with other banks.

All balances from date of acquisition included in cash and cash equivalents have a maturity date of less than three months.

### 15. Financial instruments

#### 15.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, deferred tax, tax payable, intangible assets, inventory and post-retirement liabilities. The Group shall recognise a financial asset or a financial liability on its balance sheet when and only when, the entity becomes a party to the contractual provision of the instrument.

#### 15.2 Financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Management determines the classification of the asset at initial recognition.

Financial assets are initially recognised at fair value plus

## Accounting Policies (continued)

transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset, is delivered or received. Otherwise such transactions are treated as derivatives until settlement.

The fair values of quoted investments in active markets are based on current bid prices. Alternatively, it derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

### 15.2.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of

financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Assets are classified on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- Is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- Is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The Group recognises fair value adjustments on financial assets classified as at fair value through profit and loss in trading income. Interest income on these assets is included in the fair value adjustment.

### 15.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category also includes purchased loans and receivables, where the Group has not designated such loans and receivables in any of the other financial asset categories.

### 15.2.3 Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale.

The Group carries held-to-maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

## Accounting Policies (continued)

### 15.2.4 Available-for-sale

Available-for-sale investments are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

### 15.3 Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not at fair value through profit and loss. Financial liabilities are measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

A financial liability is classified as a trading instrument if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial liabilities in which there is evidence of short term profit taking, or if so designated by management. Derivatives are also categorised as held for trading unless they are designated effective hedges.

The Group classifies certain liabilities at fair value through profit and loss to the extent that it produces more relevant information because it either:

- Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- Is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- A liability containing significant embedded derivatives that clearly requires bifurcation.

The Group recognises fair value adjustments on financial liabilities classified as at fair value through profit and loss in trading income.

The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. If the market for a financial liability is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

### 15.3.1 Policyholder liabilities under investment contracts

The Group accounts for policyholder liabilities under investment contracts at fair value through profit and loss. Refer to sections below for a detailed description of the valuation of policyholder liabilities under investment contracts.

### 15.4 Embedded derivatives

The Group treats derivatives embedded in other financial or non-financial instruments such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

### 15.5 Derecognition of assets and liabilities

The Group derecognises a financial asset when:

- the contractual rights to the financial asset expires or forfeited by the Group; or
- where there is a transfer of the contractual rights that comprise the financial asset; or
- the Group retains the contractual rights of the financial assets but assumes a corresponding financial liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset.

## Accounting Policies (continued)

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Group recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case:

- If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

### 15.6 Offsetting financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 16. Impairment of financial assets

### 16.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

### 16.2 Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on

## Accounting Policies (continued)

the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

### 16.3 Available-for-sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity

and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## 17. Derivative financial instruments and hedging

The Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in the income statement, unless it is a designated and effective hedging instrument.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate, the Group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on day one.

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is deferred in equity and released over the life of the instrument.



## Accounting Policies (continued)

However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to income.

The method of recognising the resulting fair value gains or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedge of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction ("cash flow hedge").

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as, its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

### 17.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

### 17.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow

hedges are recognised in the non-distributable reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. For financial assets and liabilities, the Group transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

## 18. Property and equipment

The Group carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

## Accounting Policies (continued)

Freehold properties and properties held under finance lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The periods of depreciation used are as follows:

• Leasehold premises	Shorter of estimated life or period of lease
• Freehold property and property held under finance lease	
• Buildings and structures	50 years
- Mechanical and electrical	20 years
- Components	20 years
- Sundries	20 years
• Computer equipment	3 years
• Furniture and fittings	10 years
• Motor vehicles	5 years
• Office equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

### 19. Investment properties

The Group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by the companies in the Group.

Investment properties comprise freehold land and buildings and are carried at fair value. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available the Group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed

annually by a combination of independent and internal valuation experts. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continues to be measured at fair value.

Property located on land that is held under operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

When investment properties become owner occupied, the Group reclassifies it to property and equipment, using the fair value at the date of reclassification as the cost, and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

Fair value adjustments on investment properties are included in the income statement as net fair value gains on assets at fair value through profit and loss. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

The Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

## 20. Leases

### 20.1 A Group company is the lessee

#### 20.1.1 Finance leases

The Group classifies leases as property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period. The property and equipment acquired are depreciated over the useful life

## Accounting Policies (continued)

of the assets, unless it is not probable that the Group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

### 20.1.2 Operating leases

The Group classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The Group recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

### 20.2 A Group company is the lessor

#### 20.2.1 Finance leases

The Group recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

#### 20.2.2 Operating leases

The Group includes in a separate category as "assets held under operating lease" property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised on a straight-line basis over the lease term.

### 20.3 Instalment credit agreements

The Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable hereunder, less unearned finance charges, in advances.

The Group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

## 21. Intangible assets

### 21.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment as contemplated below.

### 21.2 Computer software development costs

The Group generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Group exceeding the costs incurred for more than one financial period, the Group capitalises such costs and recognises it as an intangible asset.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

### 21.3 Other intangible assets

The Group generally expenses the costs incurred on internally generated intangible assets such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably

## Accounting Policies (continued)

measured and where the Group is expected to derive a future benefit for more than one accounting period is capitalised.

The Group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one financial period.

The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

Amortisation and impairments of intangible assets are reflected under operating expenses in the income statement.

### 22. Employee benefits

#### 22.1 Post-employment benefits

The Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plan is generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plan the pension accounting costs are assessed using the projected unit credit method.

The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group recognises current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are expensed

immediately in the case of retired employees.

The Pension Fund is registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. Qualified actuaries perform annual valuations.

For defined contribution plan, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### 22.2 Post-retirement medical benefits

In terms of certain employment contracts, the Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Banking Group created an independent fund in 1998 to fund these obligations. IAS 19 requires that the assets and liabilities in respect thereof be reflected on the balance sheet.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plan.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

#### 22.3 Termination benefits

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. The Group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

#### 22.4 Leave pay provision

The Group recognises in full employees rights to annual leave entitlement in respect of past service.

## Accounting Policies (continued)

### 22.5 Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probably that the economic benefits will be paid and the amount can be reliably measured.

### 22.6 Recognition of actuarial gains and losses

Recognition of actuarial gains and losses occurs as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

The Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

## 23. Borrowings

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost except for financial liabilities designated at fair value. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in the income statement on an effective interest rate basis.

The Group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the Group purchases its own debt, the debt is derecognised from the balance sheet and any difference

between the carrying amount of the liability and the consideration paid is included in trading income.

## 24. Share Capital

### 24.1 Share issue costs

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

### 24.2 Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable preference shares are recognised against equity in the period in which they are approved by the company's shareholder. Dividends declared after the balance sheet date are not recognised but disclosed as a post balance sheet event.

### 24.3 Shares held by employee share trusts

Where the employee share trusts which form part of the consolidated Group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity until they are sold. Where such shares are subsequently sold, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

## 25. Segment Reporting

The Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segments"); or
- products or services within a particular economic environment ("geographical segments")

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated

## Accounting Policies (continued)

between segments where there is a reasonable basis for doing so. The Group accounts for intersegment revenues and transfer as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro-rata basis.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the Group.

### 26. Fiduciary activities

The Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

### 27. Share based payment transactions

The Group operates equity-settled share-based compensation plans.

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 28. Disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the Group's primary business being the provision of insurance and investment products, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non-current assets and disposal groups held for sale will be derecognised immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date, will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

### 29. Insurance and investment contracts

This section outlines the main lines of business that forms part of the Group's in-force policy book.

The main product groupings currently on the books of the Group are:

- Universal life smoothed-bonus policies: These policies have unit accounts, similar to unit trust investments. The policies might offer additional life or disability cover. The benefit structure might have a discretionary participating feature ("DPF"), or unit-linked to the fair value of the assets supporting the liabilities. On expiry of the contracts, the fair value of units is paid to policyholders.
- Pure risk products, which are intended to provide insurance against death, disability or medical

## Accounting Policies (continued)

contingencies and do not offer early termination values.

- Group risk business: The main products on offer within this category are group Permanent Health Insurance (PHI) cover, which provides regular annuity benefits while an insured is disabled, CPI-linked annuities, as well as lump sum death and disability benefits.
- Conventional (reversionary bonus or non-profit) policies: These policies do not have unit accounts like universal life products, but rather provide a guaranteed sum assured at death or maturity. The guaranteed payment is augmented by discretionary bonuses if the contract has DPF features. The difference between conventional and universal life DPF policy types is that, on universal life policies, annual bonus additions are made to the policy's investment account, whereas additions of bonuses on conventional policies are made to the lump sum payable on death or maturity.
- Health insurance products: These plans typically cover a variety of covers ranging from hospital benefits, outpatient surgery and day to day visits to physician offices.

### Overview of discretionary participation features

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the Group;

Terminology that is commonly used in the Namibian insurance industry also refers to contracts with discretionary participating features as "with-profit" or "smoothed bonus" policies.

Distributions of bonuses on DPF contracts are performed annually. Bonuses are used as a mechanism to smooth returns distributed to policyholders, in order to reduce their uncertainty of benefit payments. The smoothing mechanism operates in such a way that the bonuses declared are normally lower than actual

investment returns in buoyant market conditions, whereas declared bonuses normally exceed the actual investment returns during depressed market conditions. In buoyant market conditions, any investment returns which are not declared as bonuses in the year are transferred to a bonus stabilisation account, after the deduction of tax and management charges. This liability is held for future distribution to policyholders. The smoothing mechanism results in a degree of cross-subsidisation of investment returns and benefit payments between different classes and generations of DPF policyholders.

The factors which are considered in determining the discretionary bonus declared by are the investment return achieved on underlying assets in the period, the Group's bonus philosophy as regards to the intended level of smoothing for policyholders, the type of DPF contract under consideration and the existence of any contractual minimum bonus rate guarantees.

In addition, DPF contracts may incorporate embedded options including minimum guaranteed rate of bonus additions credited to a policy over its lifetime. These embedded options are accounted for in terms of the companies accounting policy for embedded derivatives.

### 29.1 Classification of contracts

The contracts issued by the Group transfer insurance risk; financial risk or both. As a result of the differing risks transferred by contracts, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk to the Group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the origination of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

#### 29.1.1 Insurance contracts

An insurance contract is one that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of benefits payable in terms of the policy on the occurrence of an

## Accounting Policies (continued)

insured event will materially differ from the amounts payable, had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts. If the difference between the benefit payable on an insured event and a non-insured event arises solely from an early termination penalty, the contract is not classified as an insurance contract.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

The following typical type of contracts issued by the Group are classified as insurance contracts:

- Insurance policies providing lump sum benefits on death or disability of the policyholder. These contracts are issued for either a defined period or for the whole life of the policyholder.
- Life annuity policies where the policyholder transfers the risk of longevity to the Group;
- Policies which provide for retrenchment or funeral cover; and
- Policies providing Permanent Health Insurance (PHI).

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return resulting in a minimum level of benefit payable at expiry of the contractual term, after allowing for the cost of risk cover. These embedded options are treated in terms of the Group's policies in respect of embedded derivatives.

Insurance contracts and Insurance contract with DPF are within the scope of IFRS4 and therefore accounted for in terms of the requirements of IFRS 4-Insurance contracts.

### 29.1.2 Investment contracts

These are contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate; financial instrument price; commodity price; foreign exchange rate; index prices or other variable.

Investment contracts with discretionary participating features (DPF)

These contracts fall within the scope of IFRS 4 and therefore are accounted for in terms of the requirements of IFRS 4.

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the Group;

The following types of contracts issued by the Group are classified as investment contracts with DPF:

- Universal life smoothed bonus policies, where discretionary bonuses are added to the investment account annually.
- Reversionary bonus policies, where discretionary bonuses are added to a guaranteed sum assured payable at the end of the contract term.

The carrying amounts in respect of the DPF benefits are included as liabilities on the balance sheet.

## 29.2 Valuation and recognition

### 29.2.1 Insurance contracts (with and without DPF) and investment contracts with DPF

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPF) and investment contracts with DPF. The sections following thereafter give more detail on how these valuation assumptions are applied to particular product lines falling within the category.

#### Principles of valuation and profit recognition

Under IFRS4, liabilities in respect insurance and investment (with DPF) contracts are valued according to the requirements of the Namibian Long-Term Insurance Act (1998) and in accordance with professional guidance notes (PGNs) issued by the Actuarial Society of South Africa (ASSA). Of particular relevance to the liability calculations, are the following actuarial guidance notes:

- PGN 104 (v6; Jan 2005): Life Offices – Valuation of Long-Term Insurers



## Accounting Policies (continued)

- PGN 110 (v1.0; Dec 2003): Reserving for minimum investment return guarantees
- PGN 102 (Mar 1995): Life Offices – HIV/AIDS
- PGN 105 (Nov 2002): Recommended AIDS extra mortality bases
- PGN 106 (v3.0; Jul 2005): Actuaries and Long-Term Insurance in South Africa

These guidance notes are available on the website of the Actuarial Society of South Africa ([www.assa.org.za](http://www.assa.org.za)).

### 29.2.2 Valuation

Liabilities are valued in terms of the financial soundness valuation ("FSV") method as described in professional guidance note PGN 104, issued by the Actuarial Society of South Africa.

Where the value of the policyholder liability is negative, this is shown as an asset under insurance contracts. The asset is not offset against the liability.

The FSV method is a discounted cash flow method which requires the expected income (premiums and charges) and outgo (claims, expenses, tax) arising from each policy contract to be projected into the future, using appropriate assumptions regarding future investment returns, tax, inflation, claims experience and persistency. The projected expenses are only those required to service the existing policy book, and not the expenses expected to be incurred in acquiring future new business. Similarly, expected income from future sales is not included in the projection – only income emanating from the in-force policy book.

The assumptions used to project cash flows are best estimates of future experience. However, a degree of prudence is introduced by the addition of compulsory margins. The compulsory margins are defined by professional guidance note PGN 104. PGN104 allows for the addition of discretionary margins where necessary to avoid the premature recognition of profits on certain lines of business.

The projected cash flows (income less outgo) under each policy contract are discounted at a market-related rate of interest, to arrive at the liability held in respect of each policy contract. The discount rate used to value the liability is consistent with the market value of assets underlying the liability.

The valuation assumptions take into account current and expected future experience, as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole in-force policy book. Differences between the assumptions used at the start and the end of the accounting period give rise to a revised liability quantification.

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at inception of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract, and the unwinding of margins, any differences between the best-estimate valuation assumptions and actual experience over each accounting period also give rise to profits and losses. These profits and losses emerge over the lifetime of a policy contract. Other sources of profit or loss include the change in liabilities from basis changes, profits on group business that are recognised as earned and shareholders' share of the cost of bonus for certain segregated DPF pools.

### 29.2.3 Recognition

#### 29.2.3.1 Premiums

Premiums receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Premiums and annuity considerations on insurance contracts are recognised when they are due in terms of the contract. Premium income received in advance is included in insurance and other payables.

## Accounting Policies (continued)

### 29.2.3.2 Benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Any of these types of claims that are notified but not paid before the balance sheet date are included in insurance and other payables. Maturity and annuity claims are recognised when they are due for payment in terms of the contract.

Group life benefits and benefits payable under health insurance contracts are accounted for as incurred. Provision is made for the estimated cost of benefit (together with the anticipated recoveries under reinsurance arrangements) notified but not settled at the balance sheet date.

Amounts unpaid under investment contracts are recorded as deductions from investment contract liabilities.

### 29.2.3.3 Reinsurance premiums

Reinsurance premiums are recognised as an expense in the income statement when they become due for payment, in terms of the contracts at the undiscounted amounts payable in terms of the contract.

### 29.2.3.4 Reinsurance recoveries

Reinsurance recoveries are recognised in the income statement in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

### 29.2.3.5 Liability adequacy test for business with discounting liabilities

On insurance contracts, the liability adequacy test is inherent in the Financial Soundness Valuation methodology applied to these contracts and this meets the minimum requirements of the test required under IFRS4.

### 29.2.3.6 Implicit recognition of a deferred acquisition cost (DAC) asset

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The Financial Soundness Valuation methodology implicitly creates a deferred

acquisition cost asset by reducing the liabilities to the extent of margins in the office premium intended to recoup acquisition costs. Thus, no explicit deferred acquisition cost asset is recognised in the balance sheet for contracts valued on this basis.

Application of the above valuation methodology to individual product lines.

### 29.2.4 Application of the above valuation methodology to individual product lines

The preceding paragraphs highlighted the principles followed in valuation and profit recognition in respect of insurance and investment (with DPF) contracts. The next section outlines how these principles are applied to the main product lines within this category.

#### 29.2.4.1 Universal life smoothed bonus policies

Liabilities for individual smoothed bonus business are set equal to the fair value of units held by the policyholder at the balance sheet date. This is the so-called unit liability. In addition, the present value of expected future cash flows (income less outgo) in respect of each policy is added or deducted from the unit liability to arrive at the total liability in respect of each universal life policy contract. This adjustment represents the so-called Namibia Dollar liability. If future income is expected to exceed future outgo under a universal life policy contract, the Namibia Dollar liability is negative, whereas it is positive if future outgo is expected to exceed future income.

Projected future outgo includes claims payments and maintenance expenses, whereas projected future income includes deductions of risk premium and other charges. In performing the projections of future income and outgo, allowance is made for future growth in unit account values at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and tax.

Future additions of bonuses to smoothed bonus policies are projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

In respect of smoothed-bonus universal life policies, bonus stabilisation accounts are also held. Bonus stabilisation reserves have been discussed

## Accounting Policies (continued)

above, but more detail about these provisions is given in the section below.

Profits arising from universal life policy contracts are recognised as described in above.

### 29.2.4.2 Conventional (reversionary or non-profit) policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums, using the best-estimate rate of return, plus prescribed margins as per PGN 104. It is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Profits arising on conventional policy contracts are recognised as described above.

### 29.2.4.3 Group risk business

The main liability types in respect of this class of business are:

- Discounted cash flow liabilities for Permanent Health Insurance claims-in-payment and CPI-linked annuities
- The liability related to the claims which relate to insurance events which have occurred before year end and thus have been incurred but have not been reported to the Group, this liability is known as the Incurred-but-not-reported (IBNR) liability claims on group risk benefits
- Unearned premium provisions in respect of risk exposure remaining after the balance sheet date (where premiums relating to the risk have been received before the balance sheet date).

The Group currently fully reinsures all Group risk business and no liabilities were held in respect of this class of business.

### 29.2.4.4 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by policyholder bonus stabilisation accounts. Bonus stabilisation accounts have been introduced under the general description of policy contracts issued by the Group.

If the fair value of the assets underlying a smoothed-bonus or conventional with-profit portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive

bonus stabilisation account is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation account is created.

The purpose with bonus stabilisation accounts is therefore to allocate all investment surpluses or deficits to policyholders after deduction of all related contractual charges.

Bonus stabilisation accounts are included in policyholder liabilities under insurance contracts and investment with DPF contracts.

### 29.2.4.5 Guaranteed maturity value liabilities

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modeling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios. The expected present value of the cost of the guarantee over and above base liabilities is taken as the liability in respect of the guarantee.

The modeling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters.

### 29.2.5 Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the Group.

The main discretionary margins utilised in the valuation are as follows:

- Investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.

## Accounting Policies (continued)

- Additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the Group.

### 29.2.6 Options and guarantees

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

### 29.2.7 Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modeling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios, with parameters calibrated to market data. The modeling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of

simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model is calibrated to use market-consistent assumptions and parameters as at the valuation date.

### 29.2.8 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which it is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as loans and receivables), as well as long term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the period. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

### 29.2.9 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance

## Accounting Policies (continued)

receivable accordingly and recognises the impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

### 29.3 Investment income

Investment income comprises interest and dividends.

Investment income is recognised on the accrual basis. Dividend income is brought to account when the last day of registration falls within the accounting period.

### 29.4 Expenses for marketing and administration

Marketing and administration expenses include administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

### 29.5 Commission

Insurance commission payments are net of reinsurance commission received and are expensed as incurred.

Commission on investment contracts is spread over the first five years of the policy. The commission costs attributable to the unearned premiums at the end of the financial year are deferred and carried forward to the following year.

## 30. Comparative figures

Where necessary, comparative figures are restated to be consistent with the disclosure in the current year. Details are provided in note 40.

# Income Statements *for the year ended 30 June*

N\$ thousand	Notes	GROUP		COMPANY	
		2007	2006*	2007	2006
Interest and similar income	2	1 211 692	925 620		
Interest expenses and similar charges	3	(600 653)	(441 675)		
<b>Net interest income before impairment of advances</b>		611 039	483 945		
Impairment losses on loans and advances	13	(67 767)	(29 278)		
- Impairment of advances - Specific		(45 829)	(28 961)		
- Impairment of advances - Portfolio		(21 938)	(317)		
<b>Net interest income after impairment of advances</b>		543 272	454 667		
<b>Non-interest income</b>	4	378 793	343 760	460 237	15 192
- Fee and commission income	4.1	285 298	242 217		
- Fair value income	4.2	7 868	39 782		
- Gains less losses from investment activities	4.3	68 074	48 583	460 237	15 192
- Other non-interest income	4.4	17 553	13 178		
<b>Net insurance premium income</b>	5	120 231	108 169		
Insurance premium revenue		150 979	143 938		
Premium ceded to reinsurers		(28 434)	(33 018)		
Change in unearned premium	5.1	(2 314)	(2 751)		
<b>Net claims and benefits paid</b>	6	(44 041)	(42 451)		
Gross claims and benefits paid on insurance contracts		(54 325)	(57 065)		
Re-insurance recoveries		10 284	14 614		
Transfer to policyholder liabilities under insurance contracts	25	(38 148)	(36 913)		
Fair value adjustment to policyholder liabilities under investment contracts	26	(83)	1 750		
Fair value adjustment to financial liabilities	28	8 432			
<b>Income from operations</b>		968 456	828 982	460 237	15 192
Operating expenses	7	(521 088)	(454 490)	(2 103)	(2 694)
<b>Net income from operations</b>		447 368	374 492	458 134	12 498
Share of (losses)/profit of associate companies after impairment losses	17.5	(229)	(2 500)	280	
<b>Profit before indirect tax</b>		447 139	371 992	458 414	12 498
Indirect tax	8.1	(12 579)	(12 992)	(351)	(8)
<b>Profit before direct tax</b>		434 560	359 000	458 063	12 490
Direct tax	8.2	(130 212)	(102 029)	504	473
<b>Profit for the year</b>		304 348	256 971	458 567	12 963
<b>Attributable to:</b>		304 348	256 971	458 567	12 963
Preference shareholders		1 107	1 331		1 792
Equityholders of the Group		303 241	255 640	458 567	11 171
<b>Basic earnings per share (cents)</b>	9.2	114.7	96.7		
<b>Dividends per share (cents)</b>	9.4	137.0	34.0		

\* Certain balances as at 30 June 2006 were restated in the current year to allow for improved classification. Refer note 40.

# Balance Sheets *as at 30 June*

N\$ thousand	Notes	GROUP		COMPANY	
		2007	2006*	2007	2006
<b>Assets</b>					
Cash and short-term funds	10	226 173	208 174		
Due from banks and other financial institutions		115 755	170 125		
Derivative financial instruments	11	22 307	39 420		
Advances classified as loans and receivables	12	8 726 203	7 861 541		
Investment securities and other investments		1 152 013	966 544		
- held for trading	14	295 803	343 269		
- elected fair value	14	6 329			
- available for sale	14	826 937	484 122		
- held to maturity	14	5 345	92 007		
- loans and receivables	14	17 599	47 146		
Accounts receivable	15	154 722	102 453		5 106
Policy loans originated on investment contracts		2 630	996		
Loan to Group company	34.3			1 862	
Reinsurance assets	16	7 902	8 175		
Investment in associate companies	17.2	263	253	263	
Investment in subsidiary companies	18			1 191 322	1 191 322
Deferred tax asset	8.3	33 803	39 178		
Property and equipment	19	164 457	157 938		
Investment property	20	6 000	6 000		
Intangible assets	21	61 544	70 813		
<b>Total assets</b>		<b>10 673 772</b>	<b>9 631 610</b>	<b>1 193 447</b>	<b>1 196 428</b>
<b>Liabilities and Equity</b>					
<b>Liabilities</b>					
Deposit and current accounts	22	7 817 107	7 811 924		
Due to banks and other financial institutions		830 762	124 224		
Derivative financial instruments	11	33 019	40 281		
Creditors and accruals	23	152 413	114 341	3 659	5 196
Gross outstanding claims		444	6 526		
Gross unearned premium	5.1	20 045	16 482		
Provision for unexpired claims	24	1 854	1 806		
Policyholder liabilities under insurance contracts	25	181 260	143 112		
Policyholder liabilities under investment contracts	26	6 955	4 194		
Intercompany liability	34.3				93 910
Post-retirement medical liability	27.1	33 883	30 225		
Tax liability		104 151	982	34 493	
Deferred tax liability	8.3	17	35 007		34 997
Long-term liability	28	251 424			
<b>Total liabilities</b>		<b>9 433 334</b>	<b>8 329 104</b>	<b>38 152</b>	<b>134 103</b>
<b>Equity</b>					
Share capital	29	1 321	1 321	1 338	1 338
Share premium	29	263 913	266 082	280 810	280 810
Non-distributable reserves	30	3 825	13 069	2 217	1 211
Distributable reserves		971 379	1 022 034	870 930	778 966
<b>Total equity</b>		<b>1 240 438</b>	<b>1 302 506</b>	<b>1 155 295</b>	<b>1 062 325</b>
<b>Total liabilities and equity</b>		<b>10 673 772</b>	<b>9 631 610</b>	<b>1 193 447</b>	<b>1 196 428</b>

\* Certain balances as at 30 June 2006 were restated in the current year to allow for improved classification. Refer note 40.

# Statements of Changes in Equity for the year ended 30 June

N\$ thousand	Non-distributable reserves				Distributable reserves	Total shareholders' equity
	Share capital (Note 29)	Share premium (Note 29)	General risk reserve (Note 30)	Other (Note 30)		
<b>Group</b>						
<b>Opening balance as at 1 July 2005</b>	1 321	266 557	24 104	3 542	840 441	1 135 965
Profit for the year					256 971	256 971
Available for sale gain transferred to the income statement (refer note 4.3)						
- bank				(423)		(423)
- insurance				(3 868)		(3 868)
Revaluation of available for sale assets						
- bank				579		579
- insurance				2 993		2 993
Transfer to / (from) the contingency reserve				169	(169)	
Staff share option cost (refer note 9.3)				762		762
BEE Consortium share option cost				1 211		1 211
Elimination of shares held by Share Incentive Trust		(475)				(475)
Ordinary final dividend: 21 October 2005					(44 939)	(44 939)
Ordinary interim dividend: 7 April 2006					(44 939)	(44 939)
Preference share dividends: 30 June 2006 (refer note 9.4)					(1 331)	(1 331)
Transfer from general risk reserve			(16 000)		16 000	
<b>Balance as at 30 June 2006</b>	1 321	266 082	8 104	4 965	1 022 034	1 302 506
Profit for the year					304 348	304 348
Available for sale gain transferred to the income statement (refer note 4.3)						
- bank				(2 891)		(2 891)
- insurance				(3 024)		(3 024)
Revaluation of available for sale assets						
- bank				1 196		1 196
- insurance				1 111		1 111
Transfer (from) / to the contingency reserve				(133)	133	
Staff share option cost (refer note 9.3)				1 595		1 595
BEE Consortium share option cost				1 006		1 006
Elimination of shares held by Share Incentive Trust		(2 169)				(2 169)
Ordinary final dividend: 25 October 2006					(60 800)	(60 800)
Ordinary special dividend: 30 March 2007					(245 825)	(245 825)
Ordinary interim dividend: 30 March 2007					(55 508)	(55 508)
Preference share dividends: 30 June 2007 (refer note 9.4)					(1 107)	(1 107)
Transfer from General Risk Reserve			(8 104)		8 104	
<b>Balance as at 30 June 2007</b>	1 321	263 913		3 825	971 379	1 240 438
<b>Company</b>						
<b>Opening balance as at 1 July 2005</b>	1 338	280 810			858 777	1 140 925
Profit for the year					12 963	12 963
BEE Consortium share option cost				1 211		1 211
Preference share dividends: 30 June 2006 (refer note 9.4)					(1 792)	(1 792)
Ordinary final dividend: 21 October 2005					(45 491)	(45 491)
Ordinary interim dividend: 7 April 2006					(45 491)	(45 491)
<b>Balance as at 30 June 2006</b>	1 338	280 810		1 211	778 966	1 062 325
Profit for the year					458 567	458 567
BEE Consortium share option cost				1 006		1 006
Ordinary final dividend: 25 October 2006					(61 546)	(61 546)
Ordinary special dividend: 30 March 2007					(248 862)	(248 862)
Ordinary interim dividend: 30 March 2007					(56 195)	(56 195)
<b>Balance as at 30 June 2007</b>	1 338	280 810		2 217	870 930	1 155 295



# Cash Flow Statements *for the year ended 30 June*

## GROUP

N\$ thousand	Notes	2007	2006*
<b>Cash flows from operating activities</b>	31.1	506 431	415 390
<i>Cash received from customers</i>		1 619 801	1 312 910
Interest income		1 181 683	905 576
Other non-interest income		315 573	296 414
Net insurance premium received		122 545	110 920
<i>Cash paid to customers and employees</i>		(1 113 370)	(897 520)
Interest expenses		(600 653)	(441 675)
Net claims and benefits paid		(44 041)	(42 451)
Total other operating expenses		(468 676)	(413 394)
Tax paid	31.2	(69 237)	(125 076)
<i>Increase in income-earning assets</i>		(974 521)	(1 454 221)
Investment securities		(126 471)	(76 953)
Due from banks and other financial institutions		54 370	(170 125)
Advances		(902 420)	(1 207 143)
<i>Increase in deposits and other liabilities</i>		683 379	1 281 204
Term deposits		469 918	168 161
Current deposit accounts		(375 920)	1 322 950
Deposits from banks		706 538	(514 495)
Negotiable certificates of deposit		(110 540)	250 660
Savings accounts		21 725	2 553
Accounts receivable and related items		(60 195)	62 853
Accounts payable and related items		31 853	(10 895)
Other			(583)
<b>Net cash inflow from operating activities</b>		146 052	117 297
<b>Net cash outflow from investing activities</b>		(22 072)	(19 879)
Capital expenses to maintain operations	31.3	(23 924)	(22 963)
Dividends received from associate company		791	580
Acquisition of subsidiary, previously associate	31.4		( 2 585)
Additional investment in associate	31.5	(1 029)	
Proceeds from sale of property and equipment		2 090	5 089
<b>Net cash outflow from financing activities</b>		(105 981)	(91 723)
Dividends paid	31.6	(363 668)	(91 248)
Long-term liability raised		259 856	
Purchase of shares for share purchase trust		(2 169)	( 475)
<b>Net increase in cash and cash equivalents</b>		17 999	5 695
Cash and cash equivalents at beginning of the year		208 174	202 479
<b>Cash and cash equivalents at end of the year</b>	10	226 173	208 174

\* Certain balances as at 30 June 2006 were restated in the current year to allow for improved classification. Refer note 40.

# Notes to the Annual Financial Statements

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>1. Accounting policies</b>				
The accounting policies of the Group are set out on pages 45 to 65.				
<b>2. Interest and similar income</b>				
Interest on:				
Cash and short-term funds	13 179	2 428		
Advances - Loans and receivables	1 108 574	856 159		
Provided on impaired advances	(10 277)	(11 100)		
Investment securities	70 207	58 089		
- held to maturity	4 035	19 875		
- available for sale	61 833	33 817		
- held for trading	4 339	4 397		
Unwinding of discounted present value of securities on non-performing loans (note 13)	17 217	11 470		
Unwinding of off-market advances (note 13)	7 813	5 267		
Net release in terms of deferred fee and expenses	4 979	3 307		
	1 211 692	925 620		
<b>3. Interest expenses and similar charges</b>				
Interest on:				
Deposits from banks and financial institutions	27 865	13 536		
Current accounts	258 192	182 195		
Savings accounts	8 011	5 587		
Term deposit accounts	224 485	147 700		
Negotiable certificates of deposit	76 084	92 657		
	594 637	441 675		
At fair value through profit and loss:				
Fixed rated bonds	6 016			
	600 653	441 675		

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>4. Non-interest income</b>				
<b>4.1 Fee and commission income</b>	285 298	242 217		
Banking fee and commission income	280 885	237 945		
- Card commissions	1 141	610		
- Cash deposit fees	36 648	31 029		
- Commissions - bills, drafts & cheques	16 094	13 052		
- Service fees	113 256	104 993		
- Other fee and commission income	94 427	73 449		
- Broking commission received	14 990	14 109		
- Unit Trust	4 329	703		
Re-insurance commission received by insurance companies	4 413	4 272		
Certain of the above fees relate to the fact that the Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making purchase and sale decisions in relation to a wide range of financial instruments.				
<b>4.2 Fair value income</b>	7 868	39 782		
Foreign exchange trading - domestic based currency trading	20 054	27 759		
Treasury trading operations				
- Debt trading	(653)	12 023		
- Other trading	(11 533)			
Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives.				
<b>4.3 Gains less losses from investment activities</b>	68 074	48 583	460 237	15 192
Dividends received on investment portfolios of insurance operations	5 468	3 601		
Dividends received from subsidiaries			460 237	15 192
Transfer from revaluation reserve on sale of available-for-sale assets				
- Insurance	3 024	3 868		
- Bank	2 891	423		
Unrealised profits on revaluation of portfolio investments of insurance operations	56 691	40 691		
<b>4.4 Other non-interest income</b>	17 553	13 178		
Income from related parties (note 34.3)	13 597	8 421		
Rental income	2 232	1 932		
Profit on revaluation of investment properties		1 043		
Profit on sale of property and equipment	614	1 321		
Other income	1 110	461		
<b>Total non-interest income</b>	<b>378 793</b>	<b>343 760</b>	<b>460 237</b>	<b>15 192</b>

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>5. Net insurance premium income</b>				
<b>Insurance premium revenue</b>	120 231	108 169		
<i>Life insurance contracts</i>	100 305	91 782		
Individual life	92 110	83 079		
- Single premiums	20 566	23 121		
- Recurring premiums	66 235	55 427		
- Annuities	5 309	4 531		
Employee benefits	7 316	7 754		
- Single premiums and investment lump sums	530	3 626		
- Recurring premiums	6 786	4 128		
Health				
- Recurring premiums	879	949		
<i>Short-term insurance contracts</i>				
- Personal lines and Corporate	49 087	51 497		
<i>Policy fees on investment contracts</i>	1 587	659		
<b>Total insurance premium income</b>	150 979	143 938		
<b>Premium ceded to reinsurers</b>	(28 434)	(33 018)		
Life insurance contracts	(8 154)	(10 261)		
Short-term insurance contracts	(20 280)	(22 757)		
<b>Net insurance premium income</b>	122 545	110 920		
Change in unearned premium provision - net of re-insurance	(2 314)	(2 751)		
<b>Consisting of:</b>				
- Life insurance contracts	93 738	82 180		
- Short-term insurance contracts	26 493	25 989		
<b>Net insurance premium income</b>	120 231	108 169		
<b>5.1 Insurance fund</b>				
Balance at the beginning of the year	10 443	7 692		
Transfer from income statement	2 314	2 751		
Balance at the end of the year	12 757	10 443		
The balance comprise of:				
Gross provision for unearned premiums	20 045	16 482		
Re-insurers' share of unearned premiums (refer note 16)	(7 288)	(6 039)		
	12 757	10 443		

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>6. Net claims and benefits paid</b>				
<b>Net claims and benefits paid</b>	44 041	42 451		
<b>Life insurance</b>	29 339	24 894		
Individual Life	29 232	26 739		
- Death and disability	10 491	12 876		
- Maturities	2 501	3 127		
- Surrenders	15 648	10 403		
- Lump sum annuities	592	333		
Employee benefits	1 015	193		
Health	1 259	1 367		
Less: Re-insurance recoveries	(2 167)	(3 405)		
<b>Short-term insurance contracts</b>	14 702	17 557		
Personal lines and corporate claims	22 771	28 788		
Transfer to provision for unexpired claims (refer note 24)	48	(22)		
Less: Re-insurance recoveries	(8 117)	(11 209)		
Gross claims and benefits paid on insurance contracts	54 325	57 065		
Re-insurance recoveries	(10 284)	(14 614)		
	44 041	42 451		
<b>7. Operating expenses</b>				
Broking commission paid by insurance companies	31 135	26 514		
Auditors' remuneration				
Audit fees	4 852	2 768	757	463
- Current year	2 222	1 495	745	280
- Prior year	2 429	1 093		154
Fees for other services	201	180	12	29
- Technical advice	71	6		
- Other	130	174	12	29
Amortisation of intangible assets	15 102	7 846		
- Trademarks (refer note 21)	15 025	7 846		
- Software (refer note 21)	77			
Depreciation	9 875	18 545		
Property (refer note 19)	(4 158)	4 802		
- Freehold buildings	(6 044)	3 074		
- Leasehold premises	1 886	1 728		
Equipment	14 033	13 743		
- Computer equipment	3 868	4 407		
- Furniture and fittings	3 968	3 606		
- Motor vehicles	787	779		
- Office equipment	5 410	4 951		
Other impairments incurred: property and equipment		386		
Operating lease charges	8 631	7 530		
- Property	5 977	4 772		
- Equipment	2 654	2 758		
Balance carried forward	69 595	63 589	757	463

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>7. Operating expenses (continued)</b>				
Balance brought forward	69 595	63 589	757	463
Professional fees - other	2 746	2 883	12	683
BEE consortium share option cost (refer note 9.3)	1 006	1 211	1 006	1 211
Staff related costs	256 427	233 685		
Direct staff costs				
- Salaries, wages and allowances	203 153	188 377		
- Off-market staff loans amortisation	7 813	5 267		
- Contributions to employee benefit funds	34 151	28 036		
Defined contribution schemes: pension (refer note 27.2)	19 302	15 354		
Defined contribution schemes: medical (refer note 27.1)	10 516	9 539		
Defined medical benefit schemes (refer note 27.1)	4 333	3 143		
- Social security levies	520	463		
- Share based payments (refer note 9.3)	1 595	762		
- Other	9 195	10 780		
Directors emoluments (refer note 7.1.3)	3 072	2 211		
Investment properties	193	95		
- Operating expenses	143	43		
- Repairs and maintenance	50	52		
Other operating costs	188 049	150 816	328	337
- Insurance	6 154	5 063		
- Advertising and marketing	29 314	23 910		13
- Property and maintenance related expenses	21 985	19 402		
- Legal and other related expenses	1 946	2 473	9	
- Postage	3 622	3 420		
- Printing and stationery	11 958	10 883	178	126
- Telecommunications	13 052	10 959		
- Conveyance of cash	3 502	3 297		
- Travel and accommodation	5 899	5 679		
- Computer and processing related costs	61 720	44 558		
- Other	28 897	21 172	141	198
Total operating expenditure	521 088	454 490	2 103	2 694
Total number of staff (as at year-end)	1 463	1 433		

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	Fees as director	Pensionable salary	Bonus	Company contributions to pension/ medical	Other allowance	Total
<b>7. Operating expenses (continued)</b>						
<b>7.1 Directors' emoluments</b>						
Emoluments paid to directors of the Group for the year ended 30 June 2007 are set out below:						
<b>2007: Executive directors:</b>						
VR Rukoro		1 040	500	105	320	1 965
		1 040	500	105	320	1 965
<b>Non-executive directors:</b>						
<i>Non-executive independent directors:</i>						
H-D Voigts (Chairman)	195					195
HWP Böttger	226					226
Il Zaamwani-Kamwi	156					156
PT Nevonga	64					64
EP Shiimi	23					23
SH Moir	220					220
CLR Haikali	160					160
MN Ndilula	63					63
<i>Other non-executive directors*:</i>						
JK Macaskill, MT Lategan, JR Khethe	1 107	1 040	500	105	320	3 072
<b>2006: Executive directors:</b>						
VR Rukoro		328		33	106	467
LS Ipangelwa (deceased)		276	340	37	119	772
		604	340	70	225	1 239
<b>Non-executive directors:</b>						
<i>Non-executive independent directors:</i>						
H-D Voigts (Chairman)	274					274
HWP Böttger	183					183
Il Zaamwani-Kamwi	125					125
LG Kannemeyer	32					32
PT Nevonga	64					64
SV Katjjuanjo	55					55
EP Shiimi	28					28
SH Moir	117					117
CLR Haikali	62					62
MN Ndilula	32					32
<i>Other non-executive directors*:</i>						
EB Niewoudt, JK Macaskill						
	972	604	340	70	225	2 211

\* Executive directors and directors appointed by the main shareholder do not receive directors fees for services.

#### Total directors' remuneration and fees paid by:

- Executive directors
- Non-executive directors

	Paid by other Group companies	
	2007	2006
- Executive directors	1 965	1 239
- Non-executive directors	1 107	972
	3 072	2 211

Directors are not subject to service contracts which determine a fixed employment period.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

	Opening balance	Granted during the year	Strike price (cents)	Expiry date	Taken up this year (number of shares)	Benefits derived (N\$)	Closing balance (number of shares)
<b>7. Operating expenses (continued)</b>							
<b>7.2 Share options</b>							
The executive directors have been allocated the following options. Refer note 9.3 for description of the terms of the FNB Share Incentive Trust.							
The movement of share options per executive director is summarised below:							
<b>2007: Executive directors:</b>							
VR Rukoro				June			
- FNB Namibia Holdings Ltd shares	360 000		5.17 - 7.21	2010 - 2011			360 000
- FirstRand Ltd shares	100 000		18.70	March 2011			100 000
<b>Non-executive directors:</b>							
Il Zaamwani-Kamwi		150 000	5.17	June 2010			150 000
PT Nevonga		150 000	5.17	June 2010			150 000
<b>2006: Executive directors:</b>							
LS Ipangelwa (deceased)							
- FNB Namibia Holdings Ltd shares	200 000		4.00	Nov 2007	200 000	410 000	
- FNB Namibia Holdings Ltd shares	200 000		5.17	June 2010	200 000	176 000	
						<u>586 000</u>	
- FirstRand Ltd shares	100 000		12.12	Oct 2009	100 000	458 000	
VR Rukoro				June			
- FNB Namibia Holdings Ltd shares		360 000	5.17 - 7.21	2010 - 2011			360 000
- FirstRand Ltd shares		100 000	18.70	March 2011			100 000

	2007		2006	
	Number of ordinary shares held	% held	Number of ordinary shares held	% held
<b>7.3 Directors' holdings in shares:</b>				
<b>Names:</b>				
<b>Directly:</b>				
H-D Voigts	11 806	0.004	11 806	0.004
LS Ipangelwa (estate)			70 300	0.027
HWP Böttger	4 667	0.002	4 667	0.002
PT Nevonga			526	
SH Moir	6 000	0.002	6 000	0.002
<b>Indirectly:</b>				
CLR Haikali	286 848	0.107		
MN Ndilula	362 797	0.136		



# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>8. Tax</b>				
<b>8.1 Indirect tax</b>				
Value-added tax (net)	7 437	7 883	351	1
Stamp duties	5 142	5 109		7
<b>Total indirect tax</b>	<b>12 579</b>	<b>12 992</b>	<b>351</b>	<b>8</b>
<b>8.2 Direct tax</b>				
Namibian normal tax				
Current	159 827	104 512	34 493	
- Current year	160 805	105 565	34 493	
- Prior year	(978)	(1 053)		
Deferred	(29 615)	(2 483)	(34 997)	(473)
- Current year	(29 615)	2 951		(473)
- Prior year		(5 434)	(34 997)	
<b>Total direct tax</b>	<b>130 212</b>	<b>102 029</b>	<b>(504)</b>	<b>(473)</b>
<b>Tax rate reconciliation - Namibian normal tax</b>				
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Effective rate of tax	30	28		(4)
<i>Total tax has been affected by:</i>				
Non-taxable income	5	5	35	39
Prior year		2		
Standard rate of tax	35	35	35	35

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>8. Tax (continued)</b>				
<b>8.3 Deferred tax</b>				
8.3.1 The movement on the deferred tax account is as follows:				
<b>ENTITIES WITH DEFERRED TAX LIABILITIES</b>				
<b>Credit balance</b>				
- Balance at the beginning of the year	74 810	69 637	74 798	59 333
- (Originating)/reversing temporary differences	(74 793)	5 173	(74 798)	15 465
<b>Total credit balance</b>	17	74 810		74 798
<b>Debit balance</b>				
- Balance at the beginning of the year	(39 803)	(23 871)	(39 801)	(23 863)
- Reversing /(originating) temporary differences	39 803	(15 932)	39 801	(15 938)
<b>Total debit balance</b>		(39 803)		(39 801)
<b>Net balance for the year for entities with deferred tax liabilities</b>	17	35 007		34 997
<b>ENTITIES WITH DEFERRED TAX ASSETS</b>				
<b>Credit balance</b>				
- Balance at the beginning of the year	91 315	84 373		
- Originating temporary differences	4 009	6 942		
<b>Total credit balance</b>	95 324	91 315		
<b>Debit balance</b>				
- Balance at the beginning of the year	(130 493)	(131 827)		
- Originating temporary differences	1 366	1 334		
<b>Total debit balance</b>	(129 127)	(130 493)		
<b>Net balance for the year for entities with deferred tax assets</b>	(33 803)	(39 178)		
<b>Overall net deferred tax balance</b>	(33 786)	(4 171)		34 997
Total originating differences through income statement	(29 615)	(2 483)	(34 997)	(473)

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority, same legal entity and there is a legal right to set-off.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	Balance on 1 July 2005	Originating/ (reversing) differences	Balance on 30 June 2006	Balance on 1 July 2006	Originating/ (reversing) differences	Balance on 30 June 2007
<b>8. Tax (continued)</b>						
<b>8.3 Deferred tax (continued)</b>						
8.3.2 Deferred tax assets and liabilities and the deferred tax charge/(credit) in the income statement are attributable to the following items:						
<b>GROUP</b>						
<b>ENTITIES WITH NET DEFERRED TAX ASSETS</b>						
<b>Deferred tax liabilities</b>						
Instalment credit agreements	(52 387)	3 636	(48 751)	(48 751)	5 325	(43 426)
Accruals	(4 874)	(1 233)	(6 107)	(6 107)	(10 276)	(16 383)
Deferred staff costs	(17 339)	(3 347)	(20 686)	(20 686)	3 521	(17 165)
Fixed Assets	(9 773)	(5 998)	(15 771)	(15 771)	(1 176)	(16 947)
Other					(1 403)	(1 403)
<b>Total deferred tax liabilities</b>	<b>(84 373)</b>	<b>(6 942)</b>	<b>(91 315)</b>	<b>(91 315)</b>	<b>(4 009)</b>	<b>(95 324)</b>
<b>Deferred tax assets</b>						
On fair value adjustments of financial instruments					910	910
Taxation losses		1 651	1 651	1 651	(143)	1 508
Provision for loan impairment	28 336	(4 858)	23 478	23 478	6 403	29 881
Provision for post-retirement benefits	9 557	959	10 516	10 516	1 241	11 757
Other	81 348	13 500	94 848	94 848	(9 777)	85 071
<b>Total net deferred tax asset</b>	<b>119 241</b>	<b>11 252</b>	<b>130 493</b>	<b>130 493</b>	<b>(1 366)</b>	<b>129 127</b>
<b>Net deferred tax assets</b>	<b>34 868</b>	<b>4 310</b>	<b>39 178</b>	<b>39 178</b>	<b>(5 375)</b>	<b>33 803</b>
<b>ENTITIES WITH NET DEFERRED TAX LIABILITIES</b>						
<b>Deferred tax liabilities</b>						
Instalment credit agreements	(68 649)	(6 150)	(74 799)	(74 799)	74 799	
Fixed Assets		(11)	(11)	(11)	(6)	(17)
Other	(988)	988				
<b>Total deferred tax liabilities</b>	<b>(69 637)</b>	<b>(5 173)</b>	<b>(74 810)</b>	<b>(74 810)</b>	<b>74 793</b>	<b>(17)</b>
<b>Total net deferred tax asset: Taxation losses</b>	<b>23 871</b>	<b>15 932</b>	<b>39 803</b>	<b>39 803</b>	<b>( 39 803)</b>	
<b>Net deferred tax liabilities</b>	<b>(45 766)</b>	<b>10 759</b>	<b>(35 007)</b>	<b>(35 007)</b>	<b>34 990</b>	<b>(17)</b>
<b>Net deferred tax</b>	<b>(10 898)</b>	<b>15 069</b>	<b>4 171</b>	<b>4 171</b>	<b>29 615</b>	<b>33 786</b>
<i>Charge through income statement deferred tax charge</i>		(2 483)			(29 615)	
<i>Created directly in equity due to prospective IFRS adjustments</i>		(12 586)				
		(15 069)			(29 615)	
<b>COMPANY</b>						
<b>Deferred tax liabilities</b>						
Instalment credit agreements	(59 332)	(15 466)	(74 798)	(74 798)	74 798	
Taxation losses	23 862	15 939	39 801	39 801	(39 801)	
<b>Total deferred tax liabilities</b>	<b>(35 470)</b>	<b>473</b>	<b>(34 997)</b>	<b>( 34 997)</b>	<b>34 997</b>	

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	2007				2006			
	Banking	Insurance	Other	Total	Banking	Insurance	Other	Total
<b>9. Dividends and earnings per share</b>								
<b>9.1 Headline earnings per share</b>								
The calculation of Group headline earnings per share is based on the headline earnings of N\$299.0 million (2006: N\$251.1 million) and the weighted average number of shares in issue of 264 330 887 (2006: 264 346 955).								
<b>Earnings attributable to ordinary shareholders</b>	238 846	53 996	10 399	303 241	199 023	34 150	22 467	255 640
Profit on sale of property and equipment	(359)	(68)		(427)	(868)	10		(858)
Impairment on property and equipment					(251)			(251)
Profit on revaluation of investment property					(678)			(678)
Realised income from available for sale financial assets	(1 879)	(1 966)		(3 845)	(275)	(2 514)		(2 789)
<b>Headline earnings attributable to ordinary shareholders</b>	236 608	51 962	10 399	298 969	196 951	31 646	22 467	251 064
<b>Headline earnings per share (cents)</b>				113.1				95.0

	Shares in issue GROUP	
	2007	2006
<b>9.2 Earnings per share</b>		
The calculation of Group earnings per share is based on the earnings attributable to ordinary shareholders of N\$303.2 million (2006: N\$255.6 million) and the weighted average number of shares in issue of 264 330 887 (2006: 264 346 955). There are no dilution effects on the basic earnings per share.		
<b>Actual number of shares</b>		
Number of shares in issue at 30 June	267 593 250	267 593 250
Share Incentive Trust	(3 270 372)	(3 246 295)
Actual number of shares in issue (after elimination of shares in Share Incentive Trust)	264 322 878	264 346 955
<b>Weighted number of shares</b>		
Actual number of ordinary shares in issue 1 July	267 593 250	267 593 250
Share Incentive Trust	(3 262 363)	(3 246 295)
Weighted average number of shares 30 June	264 330 887	264 346 955

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>9. Dividends and earnings per share (continued)</b>				
<b>9.3 Share option schemes</b>				
<b>The income statement charge for share-based payments is as follows:</b>				
FNB Share Incentive Trust	304	312		
BEE Staff Incentive Scheme	325	450		
<b>Total of share trusts</b>	<b>629</b>	<b>762</b>		
Employees with FirstRand share options (FirstRand Share Incentive Scheme)	966			
<b>Charge against staff costs (refer note 7)</b>	<b>1 595</b>	<b>762</b>		
BEE consortium share option cost (refer note 7)	1 006	1 211	1 006	1 211
<b>Charge to income statement</b>	<b>2 601</b>	<b>1 973</b>	<b>1 006</b>	<b>1 211</b>
<b>The fair value of options granted at the end of the financial periods are as follows:</b>				
FNB Share Incentive Trust	640	336		
BEE Staff Incentive Scheme	775	450		
Employees with FirstRand share options (FirstRand Share Incentive Scheme)	966			
BEE Consortium share option costs	2 217	1 211	2 217	1 211
<b>Fair value of options granted (Refer note 30)</b>	<b>4 598</b>	<b>1 997</b>	<b>2 217</b>	<b>1 211</b>

FNB Namibia Holdings Ltd options are equity settled.

The following is a summary of the share incentive schemes:

#### FNB and FirstRand Share Incentive Scheme

The purpose of this scheme is to provide a facility to employees of the FNB Namibia Holdings Group to acquire shares in FNB Namibia Holdings Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain employees within the FNB Namibia Holdings Group.

For options allocated, delivery may only be taken by the participant 3,4 and 5 years after the option is exercised at a rate of 33.3% per annum.

The Group does not have an exposure to market movement on its own shares as all options are hedged through a share incentive trust that houses the shares until the options are exercised or expires.

#### BEE Share Incentive Scheme

The Group is firmly committed to the process of achieving transformation in Namibia. The company specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black Namibians.

FirstRand Bank Holdings Ltd made available 13 379 663 shares, representing 5% of its investment in FNB Namibia Holdings Ltd at the time, to a BEE transaction. Of this total number, 4% was allocated to BEE partners and 1% was allocated to black employees and black non-executive directors. The 1% allocation to staff includes a number of shares to be held separately in a trust of which the dividend income is to support educational needs of such staff members and their family members. The rest of the 1% allocation is used, through a trust, to allocate options to black staff members and black non-executive directors.

Funding is at 80% of prime and 100% of dividends received are used to service funding costs. The funding is repayable in 10 years.

Vesting conditions as follows:

- Black staff and black non-executive directors: 50% after year 3 and 25% per year in years 4 and 5 respectively.
- BEE Partners: Upon meeting certain performance criteria, share options will vest 1/5th every year over a minimum period of 5 years. The first tranche vested and was exercised during the year.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

FNB Share Incentive Trust		BEE Staff Incentive Scheme	
2007	2006	2007	2006

## 9. Dividends and earnings per share (continued)

### 9.3 Share option schemes (continued)

#### Valuation methodology of share incentive scheme

Fair values for the share incentive schemes are calculated at the date of grant using a modification of the Cox-Rubenstein binomial model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates. The days on which the options can be exercised has been assumed to be the last day that the share trade cum-dividend.

#### Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate is the Risk-free rate of return, recorded on the date of the option grant, on a South African Government zero coupon bond of a term equal to the expected life of the option.

#### Dividend data of the following:

- The last dividend paid is the N\$ amount of the last dividend before the options were granted;
- The last dividend date is the ex-date of the last dividend; and
- The annual expected dividend growth, which is based on publicly available information.

#### Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.
- The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 expenses for the year under review are:

Weighted average exercise price (N\$)	700 - 792	400 - 540	517	517
Expected volatility (%)	2 - 11	20 - 37	19.65	19.65
Expected option life (years)	5	5	5	5
Expected risk free rate (%)	8.00	9.47	8.00	8.00

#### Share option schemes

Number of options in force at the beginning of the year ('000)	2 321	3 101	1 607	
<i>Granted at prices ranging between (cents)</i>	400 - 540	400 - 540	517	
Number of options granted during the year ('000)	1 635		461	1 607
<i>Granted at prices ranging between (cents)</i>	721		517	517
Number of options exercised/released during the year ('000)	(380)	(626)		
<i>Market value range at the date of exercise/release (cents)</i>	700 - 721	605 - 610		
Number of options cancelled/lapsed during the year ('000)	(320)	(154)	(210)	
<i>Granted at prices ranging between (cents)</i>	400 - 517	400 - 540	517	
Number of options in force at the end of the year ('000)	3 256	2 321	1 858	1 607
<i>Granted at prices ranging between (cents)</i>	400 - 721	400 - 540	517	517

#### Options are exercisable over the following periods: (first date able to release)

Financial year 2007 (N\$'000)		347		
Financial year 2008 (N\$'000)	786	890	928	803
Financial year 2009 (N\$'000)	971	542	465	402
Financial year 2010 (N\$'000)	972	542	465	402
Financial year 2011 (N\$'000)	527			
	3 256	2 321	1 858	1 607

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>9. Dividends and earnings per share (continued)</b>				
<b>9.4 Dividends per share (ordinary dividends)</b>				
A final dividend (dividend no. 21) of 17.0 cents per share was declared on 10 August 2005 in respect of the six months ended 30 June 2005 and payable on 21 October 2005.		44 939		45 491
An interim dividend (dividend no. 22) of 17.0 cents per share was declared on 9 February 2006 for the six months ended 31 December 2005 and paid on 7 April 2006.		44 939		45 491
A final dividend (dividend no. 23) of 23.0 cents per share was declared on 17 August 2006 in respect of the six months ended 30 June 2006 and payable on 25 October 2006.	60 800		61 546	
A special dividend (dividend no. 24) of 93.0 cents per share was declared on 6 February 2007 for the six months ended 31 December 2006 and paid on 30 March 2007.	245 825		248 862	
An interim dividend (dividend no. 25) of 21.0 cents per share was declared on 6 February 2007 for the six months ended 31 December 2006 and paid on 30 March 2007.	55 508		56 195	
	362 133	89 878	366 603	90 982
Final dividend (dividend no.26) declared subsequent to year-end (refer Directors' report)	68 724	60 800	69 574	61 546
The dividend per share calculation in the current year and the prior year takes into account the elimination of the dividends to the Share Incentive Trust, which is consolidated on a Group level.				
<b>Preference dividends</b>				
Dividend no. 2 declared on 30 June 2006 and paid on 30 June 2007		1 331		1 792
Dividend no. 3 declared on 30 June 2007 and payable on 30 June 2008	1 107			
	1 107	1 331		1 792
<b>10. Cash and short-term funds</b>				
Coins and bank notes	120 587	106 512		
Balances with central banks	91 764	79 508		
Balances with other banks	13 822	22 154		
	226 173	208 174		
Mandatory reserve balances included in above:	91 762	79 505		
Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, in terms of the Banking Institutions Act (No. 2 of 1998). These deposits bear no interest. Money at short notice, consisting of the balances above, constitutes amounts withdrawable in 32 days or less.				
<b>Fair value:</b> The carrying value approximates the fair value of total cash and short-term funds.				

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	ASSETS		LIABILITIES	
	Notional	Fair value	Notional	Fair value

## 11. Derivative financial instruments

The Group uses the following financial instruments:

**Forward rate agreements** are negotiated foreign exchange contracts where the fair value is calculated by taking the foreign exchange contract price for the remaining term at year-end.

**Currency and interest rate swaps** are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate) or currencies. No exchange of principal takes place. These instruments are not designated as hedging instruments.

For each swap reset period (swaplet) there is a real start, real end, forward start, forward end payment and reset date. Forward rates are determined from the forward start and forward end date (forward period) and are applied over the real start and real end date (interest period) to obtain an interest amount. The cash flow (interest amount) is then present valued from the payment date. The forward rates and discount rates are determined from a curve derived from similar market traded instruments. The reset rate of each swaplet is determined in the terms of the legal documents and is reset on the reset date of each swaplet.

Further information pertaining to the risk management of the Group is set out in note 33.

The Group utilises the following derivatives for trading purposes:

### 2007

Currency derivatives

- Forward rate agreements
- Options

Interest rate derivatives

- Swaps

Total held for trading

363 671	7 036	393 906	6 215
280 682	10 487	280 682	10 487
1 852 228	4 784	2 097 039	16 317
<b>2 496 581</b>	<b>22 307</b>	<b>2 771 627</b>	<b>33 019</b>

### 2006

Currency derivatives

- Forward rate agreements
- Options

Interest rate derivatives

- Swaps

Total held for trading

141 422	21 998	141 422	22 035
17 422	17 422	17 422	17 422
		824	824
<b>158 844</b>	<b>39 420</b>	<b>159 668</b>	<b>40 281</b>

The contractual commitment to deliver and receive on currency forward rate agreements is N\$393.9 million (2006: N\$141.4 million). These agreements are normally entered into on a back to back basis with RMB Treasury at FirstRand Bank Limited.



# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>12. Advances classified as loans and receivables</b>				
<b>Sector analysis</b>				
Agriculture including fishing	202 953	278 645		
Banks and financial services	124 682	168 692		
Building and property development	1 248 885	1 581 111		
Government and public authorities	335 011	193 086		
Individuals	5 561 366	4 362 096		
Manufacturing and commerce	727 378	649 367		
Mining	26 912	58 945		
Transport and communication	144 261	248 375		
Other services	602 762	533 379		
<b>Notional value of advances</b>	<b>8 974 210</b>	<b>8 073 696</b>		
Contractual interest suspended	(45 642)	(45 141)		
<b>Gross advances</b>	<b>8 928 568</b>	<b>8 028 555</b>		
Impairment of advances (note 13)	(202 365)	(167 014)		
<b>Net advances</b>	<b>8 726 203</b>	<b>7 861 541</b>		
<b>Geographic analysis (based on credit risk)</b>				
<b>Notional value of advances: Namibia</b>	<b>8 974 210</b>	<b>8 073 696</b>		
Contractual interest suspended	(45 642)	(45 141)		
<b>Gross advances</b>	<b>8 928 568</b>	<b>8 028 555</b>		
Impairment of advances (note 13)	(202 365)	(167 014)		
<b>Net advances</b>	<b>8 726 203</b>	<b>7 861 541</b>		
<b>Category analysis</b>				
Overdrafts and managed accounts	1 281 629	1 249 237		
Loans to other financial institutions	158 470	17 485		
Instalment sales	1 493 327	1 360 510		
Lease payments receivable	45 421	41 435		
Property finance				
- Home loans	4 518 015	4 140 154		
- Commercial property finance	134 845	114 907		
Term loans	1 134 739	906 007		
Preference share advances	132 196	151 269		
Other	75 568	92 692		
<b>Notional value of advances</b>	<b>8 974 210</b>	<b>8 073 696</b>		
Contractual interest suspended	(45 642)	(45 141)		
<b>Gross advances</b>	<b>8 928 568</b>	<b>8 028 555</b>		
Impairment of advances (note 13)	(202 365)	(167 014)		
<b>Net advances</b>	<b>8 726 203</b>	<b>7 861 541</b>		

**Company:** The company applied the legal right to set-off an advance and deposit with the same counterparty, with the same balance, in terms of IAS 32, to the amount of N\$ NIL (2006: N\$263.7 million). The related interest received and interest paid of N\$49.8 million (2006: N\$44.1 million) has also been set-off on the same principles.

**Fair value :** The carrying value of loans and advances approximate their fair value, except for certain fixed rated loans, refer note 33.7.

A maturity analysis of advances is set out in note 33.6 and is based on the remaining periods to contractual maturity from the year end.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

NS\$ thousand	Within 1 year	Between 1 and 5 years	More than 5 years	Total
<b>12. Advances classified as loans and receivables (continued)</b>				
<b>Analysis of instalment sales and lease payments receivable</b>				
<b>Group 2007</b>				
Lease payments receivable	9 214	29 517		38 731
Suspensive sale instalments receivable	32 502	1 830 768		1 863 270
	41 716	1 860 285		1 902 001
Less : Unearned finance charges	(6 902)	(356 351)		(363 253)
<b>Total</b>	<b>34 814</b>	<b>1 503 934</b>		<b>1 538 748</b>
<b>Group 2006</b>				
Lease payments receivable	9 287	38 590	623	48 500
Suspensive sale instalments receivable	38 431	1 606 711	625	1 645 767
	47 718	1 645 301	1 248	1 694 267
Less: Unearned finance charges	(5 747)	(285 949)	(626)	(292 322)
<b>Total</b>	<b>41 971</b>	<b>1 359 352</b>	<b>622</b>	<b>1 401 945</b>

A maturity analysis of advances is set out in note 33.6, and is based on the remaining periods to contractual maturity from the year-end.

The Group has not sold or pledged any security to third parties.

NS\$ thousand	Total impairment	Specific impairment	Portfolio impairment	Income statement
<b>13. Impairment losses on loans and advances</b>				
<b>Analysis of movement in impairment of advances</b>				
<b>Group 2007</b>				
Opening balance	167 014	74 870	92 144	
Bad debts written off	(15 199)	(15 199)		
Unwinding of discounted present value of securities on non-performing loans (refer note 2)	(17 217)	(17 217)		
Net new impairments created	67 767	45 829	21 938	(67 767)
Impairments created	152 241	130 303	21 938	(152 241)
Impairments released	(84 314)	(84 314)		84 314
Recoveries of bad debts	(160)	(160)		160
<b>Closing balance</b>	<b>202 365</b>	<b>88 283</b>	<b>114 082</b>	<b>(67 767)</b>
<b>Group 2006</b>				
Opening balance	161 330	69 503	91 827	
Bad debts written off	(12 124)	(12 124)		
Unwinding of discounted present value of securities on non-performing loans (refer note 2)	(11 470)	(11 470)		
Net new impairments created	29 278	28 961	317	(29 278)
Impairments created	99 582	96 899	2 683	(99 582)
Impairments released	(65 867)	(63 501)	( 2 366)	65 867
Recoveries of bad debts	(4 437)	(4 437)		4 437
<b>Closing balance</b>	<b>167 014</b>	<b>74 870</b>	<b>92 144</b>	<b>(29 278)</b>

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>13. Impairment losses on loans and advances (continued)</b>				
<b>Impairment value of off-market loans included in gross value of Home Loans:</b>				
Opening balance	59 102	49 545		
Impairments created	17 693	30 683		
Impairments released	(19 939)	(15 859)		
Unwinding of off-market advances through interest income (refer note 2)	(7 813)	(5 267)		
Closing balance	49 043	59 102		

N\$ thousand	Total value including interest in suspense	Security held	Contractual interest suspended	Specific impairment
<b>Non-performing loans</b>				
<b>Group 2007</b>				
<b>Non-performing lendings by sector</b>				
Agriculture including fishing	325	200	61	68
Banks and financial services	7		1	7
Building and property development	55 178	21 687	11 291	22 863
Individuals	163 194	109 053	25 894	55 277
Manufacturing and commerce	11 165	2 782	4 703	4 395
Transport and communication	5 688	64	629	4 448
Other services	8 792	4 954	3 063	1 475
<b>Total</b>	<b>244 349</b>	<b>138 740</b>	<b>45 642</b>	<b>88 533</b>
<b>Non-performing lendings by category</b>				
Overdrafts and managed account debtors	70 279	24 202	18 440	29 839
Instalment sale	28 720	4 020	4 560	20 330
Lease payments receivable	315		89	847
Home loans	126 831	102 353	17 367	31 580
Term loans	18 204	8 165	5 186	5 937
<b>Total</b>	<b>244 349</b>	<b>138 740</b>	<b>45 642</b>	<b>88 533</b>
<b>Group 2006</b>				
<b>Non-performing lendings by sector</b>				
Agriculture including fishing	7 699	4 326	3 400	1 987
Banks and financial services	21		21	
Building and property development	40 555	32 478	3 674	5 604
Individuals	120 093	76 859	23 381	46 618
Manufacturing and commerce	70 488	42 481	13 556	17 447
Mining	16		5	11
Transport and communication	7 066	114	70	2 870
Other services	1 375	800	1 034	332
<b>Total</b>	<b>247 313</b>	<b>157 058</b>	<b>45 141</b>	<b>74 869</b>
<b>Non-performing lendings by category</b>				
Overdrafts and managed account debtors	37 719	9 555	15 130	17 755
Instalment sale	22 672	3 180	4 127	14 599
Home loans	133 809	107 795	17 332	31 527
Term loans	53 113	36 528	8 552	10 988
<b>Total</b>	<b>247 313</b>	<b>157 058</b>	<b>45 141</b>	<b>74 869</b>

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	TOTAL FAIR VALUE					Total
	Held for trading	Elected fair value	Available for sale	Held to maturity	Loans and receivables	
<b>14. Investment securities and other investments</b>						
<b>Group 2007</b>						
<i>Total listed</i>						
Equities	192 237					192 237
	192 237					192 237
<i>Total unlisted</i>						
Treasury bills	3 486		524 197	4 115		531 798
Other Government and Government guaranteed stock			278 805			278 805
Unit Trust Investments		6 329				6 329
RMB Asset Management Namibia	99 758					99 758
Other	322		23 935	1 230	17 599	43 086
<b>Total</b>	<b>103 566</b>	<b>6 329</b>	<b>826 937</b>	<b>5 345</b>	<b>17 599</b>	<b>959 776</b>
Aggregate directors' valuation of unlisted investments						959 776
<b>Total investment securities and other investments</b>	<b>295 803</b>	<b>6 329</b>	<b>826 937</b>	<b>5 345</b>	<b>17 599</b>	<b>1 152 013</b>
<b>Group 2006</b>						
<i>Total listed</i>						
Equities	143 948					143 948
	143 948					143 948
<i>Total unlisted</i>						
Treasury bills	11 401		459 307	92 007		562 715
Other Government and Government guaranteed stock	120 851		14 534			135 385
Unit Trust Investments			10 281			10 281
RMB Asset Management Namibia	61 393					61 393
Other	5 676				47 146	52 822
<b>Total</b>	<b>199 321</b>		<b>484 122</b>	<b>92 007</b>	<b>47 146</b>	<b>822 596</b>
Aggregate directors' valuation of unlisted investments						822 596
<b>Total investment securities and other investments</b>	<b>343 269</b>		<b>484 122</b>	<b>92 007</b>	<b>47 146</b>	<b>966 544</b>

Revaluations on instruments held for trading and available for sale are based on quoted market prices and are updated monthly.

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act, 1973.

The maturity analysis for investment securities is set out in note 33.6.

No financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the Banking Institutions Act (No. 2 of 1998) and other foreign banking regulator's requirements (2006: N\$125.8 million). The liquid asset portfolio consists of the full available for sale portfolio and certain cash and short-term fund balances. The total liquid asset portfolio is N\$934.3 million (2006: N\$797.2 million).

The Group holds certain interests in collateralised debt obligation structures. The Group has no obligations toward other investors beyond the amounts already contributed. The Group has no management control or influence over these investments which are recorded at fair value under the available for sale category in the above table.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>15. Accounts receivable</b>				
Items in transit - suspense accounts	56 280	12 445		
Deferred staff costs (amortisation included in note 7)	49 043	59 103		
Dividends receivable on Structured Insurance				4 986
Accounts receivable	49 399	30 905		120
	<b>154 722</b>	<b>102 453</b>		<b>5 106</b>
<b>16. Reinsurance assets</b>				
Short-term reinsurance contracts: unearned premium (refer note 5.1)	7 288	6 039		
Short-term reinsurance contracts: outstanding claims	93	1 019		
Life reinsurance contracts	521	1 117		
<b>Total reinsurance contracts</b>	<b>7 902</b>	<b>8 175</b>		

The full amount in the current and prior year has a maturity of less than one year.

	Nature of business	Issued ordinary share capital N\$	Number of ordinary shares held	Year end
<b>17. Investment in associate companies</b>				
<b>17.1 Details of investments in unlisted associate companies</b>				
<b>Unlisted investments</b>				
Namclear (Pty) Ltd	Interbank clearing house	4	1	31 December
Avril Payment Solutions (Pty) Ltd	Payroll administrators	10 000	1 000	28 February
RMB Asset Management Namibia (Pty) Ltd	Asset Management	20	10 000	30 June

N\$ thousand	Effective Holding %		Group carrying amount		Group costs less amounts written off	
	2007	2006	2007	2006	2007	2006
<b>17.2 Effective holdings and carrying amounts in unlisted associate companies</b>						
<b>Unlisted investments</b>						
Namclear (Pty) Ltd	25	25				
Avril Payment Solutions (Pty) Ltd	10	10	263	253	1	1
RMB Asset Management Namibia (Pty) Ltd	50	50				
Total unlisted			<b>263</b>	<b>253</b>	<b>1</b>	<b>1</b>

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>17. Investment in associate companies (continued)</b>				
<b>17.3 Detailed information of unlisted associate companies</b>				
<b>Unlisted investments</b>				
Investments at cost less amounts written off	1	2 001	1	
<b>Share of associate earnings:</b>				
Share of profit before tax	1 189	1 099	410	
Tax for the year	(389)	(474)	(130)	
Retained income for the year	800	625	280	
Share of retained income at beginning of the year	253	1 259		
Retained income at the end of the year	1 053	1 884	280	
Associate became subsidiary: FNB Namibia Unit Trusts - Accumulated profits		(1 052)		
Associate became subsidiary: FNB Namibia Unit Trusts - Original cost		(2 000)		
Dividends received for the year	(791)	(580)	(18)	
Carrying value	263	253	263	
<b>Valuation:</b> Unlisted investments at directors' valuation	263	253	263	

N\$ thousand	GROUP		Avril Payment Solutions (Pty) Ltd		RMB Asset Management Namibia (Pty) Ltd		Namclear (Pty) Ltd	
	2007	2006	Unaudited February 2007	Audited February 2006	Unaudited June 2007	Audited June 2006	Unaudited December 2006	Audited December 2005
<b>Notes 17.4 and 17.5 relating to GROUP</b>								
<b>17.4 Summarised financial information of associate companies</b>								
<b>Balance sheet</b>								
Current assets	19 267	7 468	2 428	3 187	1 563	100	15 276	4 181
Non-current assets	4 915	20 639	591	885	(45)		4 369	19 754
Current liabilities	(10 089)	(16 943)	(211)	(1 267)	(4 154)	(1 694)	(5 724)	(13 982)
Non-current liabilities	(2 228)	(3 549)	(175)	(271)			(2 053)	(3 278)
Equity	11 865	7 615	2 633	2 534	(2 636)	(1 594)	11 868	6 675
<b>Income statement</b>								
<b>17.5 After tax profit attributable to the Group</b>								
Amounts written off	(1 029)	(3 125)					(1 029)	(3 125)
<b>Share of (losses)/profit of associate companies after impairment losses</b>	(229)	(2 500)	800	625			(1 029)	(3 125)

Refer note 34.3 for details on loans to/(from) related parties.

The full carrying value of the investment in RMB Asset Management Namibia (Pty) Ltd was impaired in the 2006 financial year. This company has not made profits since inception and the Group does not share in accumulated losses.

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the Group, the effect of such events are adjusted for, where material. Where the last financial statement date of an associate was more than six months before the financial statement date of the Group, the Group uses the unaudited management accounts of the associate if available. The Group has applied this principle consistently since adopting the equity accounting method for associates.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	COMPANY		Avril Payment Solutions (Pty) Ltd		RMB Asset Management Namibia (Pty) Ltd	
	2007	2006	2007	2006	2007	2006
<b>17. Investment in associate companies (continued)</b>						
<b>Notes 17.4 and 17.5 relating to COMPANY</b>						
<b>17.4 Summarised financial information of associate companies</b>						
<b>Balance sheet</b>						
Current assets	3 991	3 287	2 428	3 187	1 563	100
Non-current assets	546	885	591	885	(45)	
Current liabilities	(4 365)	(2 961)	(211)	(1 267)	(4 154)	(1 694)
Non-current liabilities	(175)	(271)	(175)	(271)		
Equity	(3)	940	2 633	2 534	(2 636)	(1 594)
<b>Income statement</b>						
<b>17.5 Share of profit of associate companies after impairment losses</b>						
	280		280			

The full carrying value of the investment in RMB Asset Management Namibia (Pty) Ltd was impaired in the 2006 financial year. This company has not made profits since inception and the Group does not share in accumulated losses.

Refer note 34.3 for details on loans to/(from) related parties.

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the Group, the effect of such events are adjusted for, where material. Where the last financial statement date of an associate was more than six months before the financial statement date of the Group, the Group uses the unaudited management accounts of the associate if available. The Group has applied this principle consistently since adopting the equity accounting method for associates.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

	Nature of business	Date of acquisition	Country of incorporation	Effective holding		
				Number of shares	% 2007	% 2006
<b>18. Investment in subsidiary companies</b>						
<b>Significant subsidiaries</b>						
All subsidiaries are unlisted.						
The number of shares remained unchanged from 2006 to 2007.						
The year-end of all the subsidiaries is 30 June.						
<b>Banking operations:</b>						
First National Bank of Namibia Ltd	Commercial banking	1 June 2003 *	Namibia	1 200 of N\$1 each	100	100
Swabou Investments (Pty) Ltd	Home loan investment company	1 July 2003	Namibia	2 of N\$0.05 each	100	100
<b>Insurance operations:</b>						
Swabou Life Assurance Company Ltd	Life assurance company	1 July 2003	Namibia	6 000 000 of N\$1 each	100	100
Swabou Insurance Company Ltd	Short-term insurance	1 July 2003	Namibia	4 000 000 of N\$1 each	100	100
<b>Other:</b>						
First National Asset Management & Trust Company of Namibia (Pty) Ltd	Estate and Trust services	1 October 1996	Namibia	200 of N\$1 each	100	100
Talas Properties (Windhoek) (Pty) Ltd	Property Company	31 March 1988	Namibia	100 of N\$1 each	100	100
FNB Namibia Unit Trusts Ltd	Unit Trusts Company	1 January 2006	Namibia	4 000 000 of N\$1 each	100	100

\* FNB Namibia Holdings Limited was previously known as First National Bank of Namibia Ltd, which was established in 1988. The banking business transferred on 1 June 2003 to a newly formed company, called First National Bank of Namibia Ltd.

N\$ thousand	Aggregate income of subsidiaries (before tax)		Total investment (Total indebtedness)	
	2007	2006	2007	2006
First National Bank of Namibia Ltd	300 357	233 165	1 142 792	1 142 792
Swabou Investments (Pty) Ltd	53 724	73 778		
First National Asset Management and Trust Company of Namibia (Pty) Ltd	1 133	714		
Talas Properties (Windhoek) (Pty) Ltd	1 181	10 094	2 967	2 967
Swabou Life Assurance Company Ltd	50 972	36 010	27 740	27 740
Swabou Insurance Company Ltd	5 948	25	12 348	12 348
FNB Namibia Unit Trusts Ltd	1 105	437	5 475	5 475
	414 420	354 223	1 191 322	1 191 322



# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand

	Cost 2007	Accumulated depreciation and impairments 2007	Net Book Value 2007	Cost 2006	Accumulated depreciation and impairments 2006	Net Book Value 2006
<b>19. Property and equipment</b>						
<b>GROUP</b>						
<b>Property</b>						
Freehold land and buildings	141 674	(33 437)	108 237	141 936	(39 679)	102 257
Leasehold premises	13 818	(8 527)	5 291	13 022	(7 866)	5 156
	155 492	(41 964)	113 528	154 958	(47 545)	107 413
<b>Equipment</b>						
Computer equipment	36 690	(29 784)	6 906	38 719	(29 835)	8 884
Furniture and fittings	52 494	(23 666)	28 828	49 747	(23 297)	26 450
Motor vehicles	6 977	(3 798)	3 179	6 241	(3 902)	2 339
Office equipment	45 362	(33 346)	12 016	47 122	(34 270)	12 852
	141 523	(90 594)	50 929	141 829	(91 304)	50 525
<b>Total</b>	<b>297 015</b>	<b>(132 558)</b>	<b>164 457</b>	<b>296 787</b>	<b>(138 849)</b>	<b>157 938</b>

N\$ thousand

	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and Fittings	Motor vehicles	Office equipment	Total
<b>Movement in property and equipment - net book value</b>							
Net book value at 30 June 2005	101 428	4 645	11 203	21 792	1 860	10 917	151 845
Additions	3 807	2 012	2 095	8 420	1 270	3 734	21 338
Work in progress transferred to equipment	(3 445)	227				3 218	
Reclassification from investment properties (refer note 20)	6 921						6 921
Depreciation charge for the year	(3 074)	(1 728)	(4 407)	(3 606)	(779)	(4 951)	(18 545)
Impairments recognised	(386)						(386)
Transfer to repairs and maintenance	(1 092)						(1 092)
Disposals	(1 902)		(7)	(156)	(12)	(66)	(2 143)
<b>Net book value at 30 June 2006</b>	<b>102 257</b>	<b>5 156</b>	<b>8 884</b>	<b>26 450</b>	<b>2 339</b>	<b>12 852</b>	<b>157 938</b>
Additions	3 077	1 854	2 474	6 086	1 723	2 877	18 091
Work in progress transferred to equipment	(2 601)	167		329		2 105	
Depreciation charge for the year	6 044	(1 886)	(3 868)	(3 968)	(787)	(5 410)	(9 875)
Transfer to repairs and maintenance	(221)						(221)
Disposals	(319)		(584)	(69)	(96)	(408)	(1 476)
<b>Net book value at 30 June 2007</b>	<b>108 237</b>	<b>5 291</b>	<b>6 906</b>	<b>28 828</b>	<b>3 179</b>	<b>12 016</b>	<b>164 457</b>

The residual values of items classified under freehold land and buildings (fixed additions) were revised during the year, affecting the net book values to be depreciated. The effect of the change is a reversal of accumulated depreciation of N\$6 million in the current year. There will be no future depreciation charges on freehold land and buildings until such time as the residual value is below the carrying value.

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973. No assets were encumbered at 30 June 2007 or June 2006.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>20. Investment property</b>				
Fair market value at beginning of the year	6 000	11 878		
Reclassification to freehold property (refer note 19)		(6 921)		
Revaluations		1 043		
Fair market value at end of the year	6 000	6 000		
<b>Investment properties consist of office buildings only</b>	6 000	6 000		
<b>The following amounts have been included in the income statement:</b>				
Rental income received on investment properties (included in note 4.4 "Other income")	405	327		
Operating expenses that generated rental income (included in note 7 "Other operating costs")	(193)	(95)		
	212	232		

The criteria used to distinguish between owner-occupied and investment property at Group level was based on the physical space occupied by Group companies in relation to total available space. The property was valued by Abel Danie Schoeman (appointed appraiser by the Master of the High Court, Windhoek, in terms of Act 66 of 1965) at open market value on 30 June 2007. This valuation is performed annually.

There are no restrictions on realisation of investment properties.

There are no material contractual obligations on investment properties and no investment property has been encumbered.

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

## 21. Intangible assets

### Trademarks

Gross amount

111 768

108 708

Less: Accumulated amortisation

(53 020)

(37 995)

58 748

70 713

### Movement in trademarks - book value

Opening balance

70 713

78 559

Intergroup sale unclaimed VAT

3 060

Amortisation (refer note 7)

(15 025)

(7 846)

Closing balance

58 748

70 713

### Goodwill

Carrying amount

100

100

### Movement in goodwill - carrying amount

Opening balance

100

Acquisition of remaining equity stake in FNB Namibia Unit Trusts Ltd

100

Closing balance

100

100

### Software

Gross amount

2 773

Less: Accumulated amortisation

(77)

2 696

### Movement in software - book value

Addition

2 773

Amortisation (refer note 7)

(77)

Closing balance

2 696

61 544

70 813

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006

## 21. Intangible assets (continued)

### Change in estimate

The amortisation period of the trademark is partly based on a diminishing amortisation profile and a fixed amortisation profile, both of which ensures the trademark to be fully amortised within the next 15 years.

During the current year, the useful life of the Swabou Insurance Company Ltd trademark was revised from 11 years to 5 years and a change in accounting estimate was recognised to the amount of N\$3.987 million. The remaining net book value of this trademark will be fully amortised during the 2008 financial year, to the amount of N\$1.827 million.

### Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash-generating units (CGU) at the lowest level of operating activity (business) to which it relates, and is therefore not combined at a Group level.

The CGU's to which the goodwill balance relate is FNB Namibia Unit Trust Company Ltd.

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

## 22. Deposit and current accounts

### Held at amortised cost

From customers

- Current accounts
- Savings account
- Term deposits

Other deposits

- Negotiable certificates of deposit

	4 016 279	4 392 199		
	364 417	342 692		
	2 528 841	2 058 923		
	907 570	1 018 110		
	7 817 107	7 811 924		
	7 817 107	7 811 924		
	28 973	11 375	208	210
	4 558	4 986	3 451	4 986
	6 173			
	112 709	97 980		
	152 413	114 341	3 659	5 196

### Geographic analysis (based on counterparty risk)

Namibia

A maturity analysis of deposits and current accounts is set out on note 33.6 of these annual financial statements, and is based on the remaining periods to contractual maturity from the year-end.

## 23. Creditors and accruals

Accounts payable

Dividends payable

Short-term portion of long-term liability (refer note 28)

Other creditors

All amounts are expected to be settled within twelve months.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>24. Provision for unexpired claims</b>				
Opening balance	1 806	1 828		
Charge to the income statement (refer note 6)	48	(22)		
Closing balance	1 854	1 806		
<p>This provision is raised for possible claim incidents incurred before year-end but only reported there-after, related to the short-term insurance industry.</p> <p>This provision forms part of the short-term insurance industry practice. The norm of 7% of earned premiums is used, adjusted for claims reported after year-end, but before the approval of the annual financial statements.</p>				
<b>25. Policyholder liabilities under insurance contracts</b>				
Balance at beginning of year	143 112	106 199		
Transfer to policyholder liabilities under insurance contracts				
- Increase in retrospective liabilities	38 148	36 913		
<b>Balance at end of year</b>	<b>181 260</b>	<b>143 112</b>		
Insurance contracts with discretionary participation features	159 697	114 580		
Insurance contracts without discretionary participation features	21 563	28 532		
<b>Policyholder liabilities under insurance contracts</b>	<b>181 260</b>	<b>143 112</b>		
<i>Actuarial liabilities under unexpired policies comprise the following:</i>				
Smoothed bonus business - Individual life	159 697	114 580		
Life business - Individual life	20 542	27 140		
Health insurance business short-term	1 021	1 392		
	181 260	143 112		
<p>The amounts above are based on the actuarial valuations of Swabou Life Assurance Company Limited at 30 June 2007.</p> <p>Below are the main assumptions that were used in determining the liabilities in respect of insurance contracts as at 30 June 2007.</p>				
<b>Best estimate valuation assumptions</b>				
<b>Economic assumptions</b>				
<b>Risk-free return</b>				
<p>The ten-year zero-coupon risk-free yield, derived from S. A. government bonds, is used as the starting point to determine the gross valuation interest rate for Namibian Dollar (NAD) denominated business.</p>				
ZAR ten-year zero-coupon risk-free yield	8.25%	8.35%		

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

	GROUP		COMPANY	
	2007	2006	2007	2006
<b>25. Policyholder liabilities under insurance contracts (continued)</b>				
<b>Valuation interest rate</b>				
The gross valuation interest rate of 9.25% per annum for NAD denominated business (30 June 2006: 9.25% per annum) was calculated as a weighted investment return, representing the investment returns on a theoretical, balanced notional portfolio consisting of equities and government bonds.				
<i>Notional portfolio used as at 30 June:</i>				
- Equities	70%	70%		
- Government bonds	30%	30%		
<i>Assumed performance of other asset classes relative to government bonds:</i>				
- Equities (including overseas equities)	2.50%	2.50%		

Rounding to the nearest 0,25% was performed.

## Inflation

An expense inflation rate of 5.8% per annum for NAD denominated business was used to project future renewal expenses. The NAD inflation rate was derived by deducting the 10-year real return on CPI-linked government bonds of 2.7% (30 June 2006:2.7%) from the risk-free rate.

## Tax

To provide for tax, the gross valuation interest rate expected to be earned in future was reduced appropriately for taxable business and retirement annuity business. These reductions in the investment return represent the expected tax payable on the assumed investment return on the notional policyholders' portfolio.

## Mortality, morbidity and terminations

Demographic assumptions, such as those in respect of future mortality, disability and persistency rates are set based by calibrating standard tables to internal experience investigations. The investigations are performed and assumptions set for individual product lines, but ensuring that assumptions are consistent where experience is not expected to deviate between product lines.

Assumptions in respect of mortality, morbidity and terminations were based on experience investigations performed in June 2006. The investigations covered a period of five years, from 2001 to 2006. The experience on policies and annuities were analysed.

Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business. Allowance for AIDS was made according to professional guidance notes PGN 102 (Mar 1995): Life Offices - HIV/AIDS and PGN 105 (Nov 2002): Recommended AIDS extra mortality bases, issued by the Actuarial Society of South Africa.

## Expenses

The sustainable annual renewal expense per policy was based on an analysis of actual expenses for the year ending 30 June 2007. The allocation between renewal and acquisition costs was based on an activity-based expense analysis performed during 2006.

Expenses expected to be once-off in nature or not relating to long-term insurance business were removed from the actual expenses.

## Policyholder bonuses

Future additions of discretionary bonuses to smoothed bonus (universal life) policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

## 25. Policyholder liabilities under insurance contracts (continued)

### Compulsory margins

The compulsory margins to best-estimate assumptions are detailed in actuarial professional guidance note PGN104 and are intended to provide a minimum level of financial resilience in the liabilities to ensure that profits are not recognised prematurely. The following prescribed margins were applied to the best estimate assumptions applicable to individual life business:

- Assumption	Margin
- Mortality	7.5% - increase to assumption for assurance - decrease to assumption for annuities
- Morbidity	10% - increase to best-estimate assumption
- Medical	15% - increase to best-estimate assumption
- Lapses	25% (e.g. if best estimate is 10%, the margin is 2.5%) - increase or decrease, depending on which alternative increases liabilities
- Surrenders	10% - increase or decrease, depending on which alternative increases liabilities
- Terminations for disability	10% - decrease to best-estimate assumption
- Income benefits in payment	10% - decrease to best-estimate assumption
- Expenses	10% - increase to best-estimate assumption
- Expense inflation	10% (of estimated escalation rate) - increase to best-estimate assumption
- Charge against investment return	- 25 basis points reduction in the assumed rate of future investment return on contracts that do not have an asset-based or investment performance-based fee

### Discretionary margin

As described in the accounting policies, discretionary margins are used to prevent the premature capitalisation of profit. The specific discretionary margins that are added to the best-estimate assumptions are as follows:

An additional HIV/AIDS reserve equal to 15% of mortality reserves are held to protect against an unanticipated worsening of mortality experience due to HIV/AIDS experience.

An additional data reserve equal to 5% of the value of the investment units held by policyholders are held to protect against possible losses due to data discrepancies.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>26. Policyholder liabilities under investment contracts</b>				
Balance at beginning of year	4 194	3 196		
Fair value adjustment to policyholder liabilities under investment contracts	83	(1 750)		
Premiums received on investment contracts	5 614	3 559		
Policyholder benefits on investment contracts	(1 349)	(152)		
Fees for asset manager services rendered	(1 587)	(659)		
<b>Balance at end of year</b>	<b>6 955</b>	<b>4 194</b>		
Investment contracts with discretionary participation features	6 955	4 194		
Total policyholders' liabilities under investment contracts	6 955	4 194		

N\$ thousand	Total	Shorter than	Between
		1 year	1 and 5 years
<b>2007</b>			
Smoothed bonus business - Individual life	6 955	1 254	5 701
Total policyholder liabilities under investment contracts	6 955	1 254	5 701

N\$ thousand	Total	Shorter than	Between
		1 year	1 and 5 years
<b>2006</b>			
Smoothed bonus business - Individual life	4 194	1 050	3 144
Total policyholder liabilities under investment contracts	4 194	1 050	3 144

## 27. Employee benefits

### 27.1 Post-retirement medical liability

The Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees based on a defined benefit plan.

The actuarial method used to value the liabilities is the project unit credit method prescribed by IAS 19 Employee Benefits. The liability is taken as the present value of the employers' share of continuation member contribution to the medical scheme. Continuing member contributions are projected into the future year using the assumption rate of health care cost inflation and then discounted back using the discount rate. The Group subsidises medical aid contributions for all eligible members at various rates.

Salary cost increases are expected to be in line with the inflation rate, whereas medical cost increases are expected to be 1.75% higher than the inflation rate.

At 30 June 2007, the actuarially determined liability of the Group was N\$33.9 million (2006: N\$30.2 million).

The actuarial valuation is done on an annual basis.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>27. Employee benefits (continued)</b>				
<b>27.1 Post-retirement medical liability (continued)</b>				
Present value of unfunded liability	34 439	33 798		
Unrecognised actuarial gains	(556)	(3 573)		
Post-retirement medical liability	33 883	30 225		
The amounts recognised in the income statement are as follows:				
Current service cost	1 397	1 317		
Interest cost	2 924	1 814		
Net actuarial gains recognised	12	12		
Total included in staff costs (refer note 7)	4 333	3 143		
Movement in post retirement medical liability				
Present value at the beginning of the year	30 225	27 665		
Amounts recognised in the income statement as above	4 333	3 143		
Contributions paid	(675)	(583)		
Present value at the end of the year	33 883	30 225		
The principal actuarial assumptions used for accounting purposes were:				
Discount rate (%)	9.35%	8.75%		
Expected rates of salary increases (%)	8.00%	6.00%		
Long-term increase in medical subsidies (%)	8.10%	7.50%		
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
- Effect on the aggregate of the current service cost and interest cost	5 409	5 171		
- Effect on the defined benefit obligation	42 178	40 479		
Decrease of 1%				
- Effect on the aggregate of the current service cost and interest cost	3 550	4 241		
- Effect on the defined benefit obligation	28 669	33 798		
Net increase in rate used to value pensions, allowing for pension increases (%)	1.25%	1.25%		
Mortality rate				
The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is as follows:				
- Male	20	20		
- Female	21	21		
Employees covered	539	539		
<b>Five year analysis on total medical post-retirement plans</b>				
	<b>N\$'000</b>			
As at 30 June 2008	37 814			
As at 30 June 2009	41 469			
As at 30 June 2010	45 405			
As at 30 June 2011	49 634			
As at 30 June 2012	54 194			



# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>27. Employee benefits (continued)</b>				
<b>27.2 Pension fund</b>				
Employer contribution to pension fund (refer note 7)	19 302	15 354		
Employer contribution to pension fund - executive director	105	70		
Total employer contributions to pension fund	19 407	15 424		
Employee contribution to pension fund	13 160	10 516		
<b>Total contributions</b>	<b>32 567</b>	<b>25 940</b>		
Number of employees covered	1 463	1 433		
The Group provides for retirement benefits by making payments to a pension fund, which is independent of the group and was registered in Namibia in 1995 in accordance with the requirements of the Pension Funds' Act. The fund is a defined contribution fund and is subject to the Pension Funds' Act (no 24 of 1956). The fund is valued every three years. The last valuation was performed for the year ended 30 June 2003 and indicated that the fund was in a sound financial position.				
The Pension Fund is a related party to the Group.				
<b>28. Long-term liability</b>				
Fixed rate bonds issued during the year at cost	260 000			
Interest accrued at year-end	6 029			
	266 029			
Fair value adjustment to financial liability elected fair value	(8 432)			
Less: Portion repayable within 12 months transferred to Creditors and Accruals (note 23)	(6 173)			
	251 424			

On 29 March 2007, First National Bank of Namibia Limited issued N\$260 million subordinated, unsecured callable notes, with a maturity date of 29 March 2017. The notes are callable by First National Bank of Namibia Limited on 29 March 2012.

The coupon rate is fixed at 9.15% per annum, payable semi annually on 29 March and 29 September, until the optional redemption date 29 March 2012. Should the notes not be redeemed, then interest is payable thereafter at a floating rate of Namibian 3 months Treasury Bill rate plus 1.5%.

These notes are listed on the Namibian Stock Exchange.

An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivative, an interest rate swap, is measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will be recorded in the income statement.

The fair value is calculated based on quoted market prices.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>29. Share capital</b>				
<b>Authorised</b>				
990 000 000 (2006: 990 000 000) ordinary shares with a par value of 0.5 cents per share	4 950	4 950	4 950	4 950
10 000 000 (2006: 10 000 000) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share	50	50	50	50
	<b>5 000</b>	<b>5 000</b>	<b>5 000</b>	<b>5 000</b>
<b>Issued</b>				
267 593 250 (2006: 267 593 250) ordinary shares with a par value of 0.5 cents per share	1 338	1 338	1 338	1 338
2 (2006: 2) cumulative convertible redeemable preference shares with a par value of 0.5 cents per share				
Elimination of shares held by Share Incentive Trust	(17)	(17)		
	<b>1 321</b>	<b>1 321</b>	<b>1 338</b>	<b>1 338</b>
Term of preference shares: redeemable at 31 days notice by either party. The dividend rights in terms of the agreement with the shareholder are based on the actual profits made, per agreed adjustments, of a portion of the short-term insurance business.				
Refer note 9.3 for details on the share options schemes.				
<b>Share premium</b>	263 913	266 082	280 810	280 810
A detailed reconciliation of the movements in the share capital and premium balances is set out in the statement of changes in equity.				
The unissued ordinary shares are under the control of the directors until the next annual general meeting.				
All issued shares are fully paid up.				
<b>30. Non-distributable reserves</b>				
General risk reserve		8 104		
Revaluation reserve: Swabou Insurance Company Ltd - Available for sale assets		1 913		
Contingency reserve: Swabou Insurance Company Ltd	766	899		
Revaluation reserve: First National Bank of Namibia Ltd - Available for sale assets	(1 539)	156		
Share-based payment reserve (refer note 9.3)	4 598	1 997	2 217	1 211
	<b>3 825</b>	<b>13 069</b>	<b>2 217</b>	<b>1 211</b>

A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.

The general risk reserve was fully released to distributable reserves in the current year, as the portfolio provision balance is in excess of the requirement set by the Bank of Namibia for performing advances.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP	
	2007	2006
<b>31. Cash flow information</b>		
<b>31.1 Reconciliation of operating income to cash flows from operating activities</b>		
Profit before indirect tax	447 139	371 992
Adjusted for:		
- Share of earnings of associate companies after impairment losses	229	2 500
- Depreciation, amortisation and impairment of property, equipment and intangible assets	24 977	26 777
- Unrealised profits on revaluation of investments	(56 691)	(40 691)
- Release from non-distributable reserve: realisation of available for sale assets (insurance)	(3 024)	(3 868)
- Release from non-distributable reserve: realisation of available for sale assets (bank)	(2 891)	(423)
- Transfer of work in progress to repairs and maintenance	221	1 092
- Revaluation of investment property		(1 043)
- Share payment cost	2 601	1 973
- Impairment of advances	67 767	29 278
- Provision for post-employment benefit obligations	4 333	3 143
- Other employment provisions	2 616	1 589
- Creation of derivative financial instruments	9 851	1 255
- Policyholders fund and insurance fund transfers	40 545	37 914
- Fair value adjustment to financial liability	(8 432)	
- Unwinding of discounted present value on non-performing loans	(17 217)	(11 470)
- Unwinding of discounted present value on off-market loans	(7 813)	(5 267)
- Net release into deferred fee and expenses	(4 979)	(3 307)
- Off market staff loans amortisation (refer note 13)	7 813	5 267
- Profit on sale of fixed assets	(614)	(1 321)
Cash flows from operating activities	506 431	415 390
<b>31.2 Taxation paid</b>		
Amounts unpaid at beginning of the year	(982)	(8 554)
Indirect taxes	(12 579)	(12 992)
Current taxation charge	(159 827)	(104 512)
Amounts unpaid at end of the year	104 151	982
Total taxation paid	(69 237)	(125 076)
<b>31.3 Capital expenses to maintain operations</b>		
During the year, the Group acquired property, equipment and incurred a net cost to selling the Swabou Life trademark (VAT not claimable) with an aggregate cost of N\$23.9 million (2006: N\$23.0 million) of which the full amount was settled in cash.		

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>31. Cash flow information (continued)</b>				
<b>31.4 Acquisition of subsidiary, previously associate</b>				
Cash and cash equivalents		1 214		
Investment securities and other investments		6 165		
Current assets		160		
Total assets		7 539		
Other liabilities		(788)		
Net assets acquired		6 751		
Goodwill acquired		100		
Cost of acquiring subsidiary		6 851		
Less 50% previously held as an associate		(3 052)		
Settled in cash		3 799		
Cash balance of subsidiary		1 214		
Settled in cash		(3 799)		
Net cash flow on acquisition of subsidiary		(2 585)		
<b>31.5 Further investment in associate company</b>				
A further investment was made in the associate company, Namclear (Pty) Ltd, which was subsequently impaired.				
Cash flow on further investment	(1 029)			
<b>31.6 Dividends paid</b>				
Amounts unpaid at beginning of the year	(4 986)	(5 025)		
Dividends approved	(363 240)	(91 209)		
Amounts unpaid at end of the year	4 558	4 986		
<b>Total dividends paid</b>	<b>(363 668)</b>	<b>(91 248)</b>		
<b>32. Contingent liabilities and capital commitments</b>				
<b>GROUP AND COMPANY</b>				
<b>Contingent liabilities</b>				
Guarantees	360 612	357 212		
Letters of credit	56 309	103 594		
Other		769		
Total contingent liabilities	416 921	461 575		
Irrevocable unutilised facilities - original maturity one year or less	937 453	687 602		
Irrevocable unutilised facilities - original maturity more than one year	238 391	232 045		
Total contingent liabilities and commitments	1 592 765	1 381 222		

Guarantees consist predominantly of endorsements and performance guarantees. The fair value of guarantees approximate the face value as disclosed.

#### Legal proceedings

There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material, either on an individual or group basis.

Provision is made for all liabilities which are expected to materialise.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	GROUP		COMPANY	
	2007	2006	2007	2006
<b>32. Contingent liabilities and capital commitments (continued)</b>				
<b>Commitments in respect of capital expenditure and long-term investments</b>				
Commitments in respect of capital expenditure and long-term investments approved by directors				
- Contracted for	17 969	432		
- Not contracted for	61 042	29 424		
<b>Made up of the following:</b>				
Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:				
- Property and equipment	17 969	432		
Capital commitments not yet contracted for at balance sheet date but have been approved by the directors:				
- Property and equipment	61 042	29 424		

Funds to meet these commitments will be provided from Group resources. Contingent liabilities or contingent assets may arise as a result from unresolved matters with the taxation authority. It is not foreseen that these adjustments will be material to the Group.

### Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are not available to finance the Banking Group's day-to-day operations.

N\$ thousand	2007		2006	
	Asset	Related liability	Asset	Related liability
Balances with central banks	15 980	14 382	26 330	23 697
Trading securities			62 297	62 297
Investment securities	15 980	14 382	88 627	85 994

N\$ thousand	Group and Company commitments under operating leases where the Group or Company is the lessee:		
	Next year	2nd to 5th year	After 5 years
<b>2007</b>			
Office premises	8 957	12 268	2 033
Equipment	1 372	476	
	10 329	12 744	2 033
Notice periods on operating lease contracts are between 3-6 months, no operating lease contract is fixed and escalation clauses range between 6% and 8%. The Group has various operating lease agreements, which may or may not contain renewal options. The lease terms do not contain restrictions on the Group's activities concerning dividends, additional funding or further leasing.			
<b>2006</b>			
Office premises	7 640	6 784	264
Equipment	1 304	1 079	
	8 944	7 863	264

There were no commitments under operating leases after 5 years.

# Notes to the Annual Financial Statements (continued)

## for the year ended 30 June

### 33. Risk management

#### 33.1 General

The unaudited Risk Report of the Group is contained on pages 132 to 136 ("the Risk Report") of this annual report, which is appended as a separate document to this set of financial statements. The report sets out in detail the various risks the Group is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the Group's risk management structure, the risk management methodologies and the various risk committees are set out in the Corporate Governance and the Risk Reports, on page 127 to 136.

#### Strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board of the Group places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

#### 33.2 Credit risk management

##### Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Banking Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis.

In banking terms this is associated with the principal business of a bank - to lend money. The Group's credit risk is therefore the possibility that it could suffer a loss due to a customer not being able to meet commitments.

The Group credit support function centrally manages the Group's credit risk. Its primary functions are to formulate macro-level credit policies; to independently review the largest credit exposures; and to manage the portfolio of risk concentrations. Efficiency of the credit process is continuously reviewed, as is the efficiency of credit approval processes and portfolio management. Portfolio credit risk is managed through a system that identifies and monitors deteriorating credit risks at an early stage.

An established credit process is in place. This involves delegated approval authorities and credit procedures, designed to build high quality assets. The approval delegation includes the use of credit committees formed to review proposed assets of varying amounts. The most senior of these committees include members of the board of directors. See note 13 for detail analysis of non-performing loans.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand

Total

## 33. Risk management (continued)

### 33.2 Credit risk management (continued)

Significant credit exposures at 30 June 2007 were:

#### 2007

##### Assets

Notional value of advances

8 974 210

Contingencies

1 592 765

10 566 975

Economic sector risk concentrations in respect of advances are set out in note 12.

#### 2006

Significant credit exposures at 30 June 2006 were:

##### Assets

Notional value of advances

8 073 696

Contingencies

1 381 222

9 454 918

### 33.3 Market risk

The Group takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions.

The primary risk control mechanism used for risk control purposes are stress loss test and limits.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	2007					Total
	N\$	Rand	US\$	Euro	Other	
<b>33. Risk management (continued)</b>						
<b>33.4 Currency risk management</b>						
The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.						
The Group manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2007 is set out below:						
<b>Assets</b>						
Cash and short-term funds	105 689	4 870	105 879	8 170	1 565	226 173
Due from banks and other financial institutions	115 755					115 755
Derivative financial instruments		4 865	11 186	5 499	757	22 307
Advances classified as loans and receivables	8 726 203					8 726 203
Investment securities and other investments						
- loans and receivables	17 599					17 599
- elected fair value	6 329					6 329
- held for trading	295 803					295 803
- held to maturity	5 345					5 345
- available for sale	826 937					826 937
Accounts receivable	154 722					154 722
Policy loans originated	2 630					2 630
Re-insurance assets	7 902					7 902
Investment in associate company	263					263
Deferred tax assets	33 803					33 803
Property and equipment	164 457					164 457
Investment property	6 000					6 000
Intangible assets	61 544					61 544
<b>Total assets</b>	<b>10 530 981</b>	<b>9 735</b>	<b>117 065</b>	<b>13 669</b>	<b>2 322</b>	<b>10 673 772</b>
<b>Liabilities and shareholders' funds</b>						
Deposit and current accounts	7 379 975	437 132				7 817 107
Due to banks and other financial institutions	664 465	166 297				830 762
Derivative financial instruments		16 317	10 333	5 237	1 132	33 019
Creditors and accruals	152 413					152 413
Gross outstanding claims	444					444
Gross unearned premium	20 045					20 045
Provision for unexpired claims	1 854					1 854
Policyholder liabilities under insurance contracts	181 260					181 260
Policyholder liabilities under investment contracts	6 955					6 955
Post-retirement benefit fund liability	33 883					33 883
Tax liability	104 151					104 151
Deferred tax liability	17					17
Long-term liability	251 424					251 424
<b>Total equity</b>	<b>1 240 438</b>					<b>1 240 438</b>
<b>Total equity and liabilities</b>	<b>10 037 324</b>	<b>619 746</b>	<b>10 333</b>	<b>5 237</b>	<b>1 132</b>	<b>10 673 772</b>

**Currency conversion guide:**

	30 June 2007
1 SA Rand	N\$1.00
1 Pound Sterling	N\$14.11
1 US Dollar	N\$7.04
1 Euro	N\$9.51



# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	2006					Total
	N\$	Rand	US\$	Euro	Other	
<b>33. Risk management (continued)</b>						
<b>33.4 Currency risk management (continued)</b>						
<b>Assets</b>						
Cash and short-term funds	153 763	3 176	36 718	13 210	1 307	208 174
Due from banks and other financial institutions	170 125					170 125
Derivative financial instruments			21 998	17 422		39 420
Advances classified as loans and receivables	7 861 541					7 861 541
Investment securities and other investments						
- loans and receivables	47 146					47 146
- held for trading	343 269					343 269
- held-to-maturity	92 007					92 007
- available- for- sale	484 122					484 122
Accounts receivable	102 453					102 453
Policy loans originated	996					996
Re-insurance assets	8 175					8 175
Investment in associate company	253					253
Deferred tax assets	39 178					39 178
Property and equipment	157 938					157 938
Investment property	6 000					6 000
Intangible assets	70 813					70 813
<b>Total assets</b>	<b>9 537 779</b>	<b>3 176</b>	<b>58 716</b>	<b>30 632</b>	<b>1 307</b>	<b>9 631 610</b>
<b>Liabilities and shareholders' funds</b>						
Deposit and current accounts	7 811 924					7 811 924
Due to banks and other financial institutions	124 224					124 224
Derivative financial instruments	824		22 035	17 422		40 281
Creditors and accruals	114 341					114 341
Gross outstanding claims	6 526					6 526
Gross unearned premium	16 482					16 482
Provision for unintimated claims	1 806					1 806
Policyholder liabilities under insurance contracts	143 112					143 112
Policyholder liabilities under investment contracts	4 194					4 194
Post-retirement benefit fund liability	30 225					30 225
Tax liability	982					982
Deferred tax liability	35 007					35 007
Total equity	1 302 506					1 302 506
<b>Total equity and liabilities</b>	<b>9 592 153</b>		<b>22 035</b>	<b>17 422</b>		<b>9 631 610</b>

#### Currency conversion guide:

1 SA Rand	30 June 2006	N\$1.00
1 Pound Sterling		N\$13.17
1 US Dollar		N\$7.14
1 Euro		N\$9.11

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	Carrying amount 2007	Interest earning/bearing - Term to repricing					Non-interest earning/bearing
		Demand	1 - 3 months	4 -12 months	1- 5 years	Over 5 years	

## 33. Risk management (continued)

### 33.5 Interest rate risk management

#### Interest sensitivity of assets, liabilities and off balance sheet items - repricing analysis

Interest rate risk arises when rate changes create the possibility of incurring losses. Asset and Liability Committee ("ALCO") is charged with managing the structure of the balance sheet and dealing with key risks arising during the ordinary course of banking. This risk is quantified by calculating the impact of a one percent increase and decrease in interest rates on net interest income and is reported to the board.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Assets	Carrying amount 2007	Demand	1 - 3 months	4 -12 months	1- 5 years	Over 5 years	Non-interest earning/bearing
Cash and short-term funds	226 173	8 547					217 626
Due from banks and other financial institutions	115 755	115 755					
Derivative financial instruments	22 307	22 307					
Advances classified as loans and receivables	8 726 203	1 181 151	7 508 045	7 146	29 861		
Investment securities and other investments							
- loans and receivables	17 599		17 599				
- elected fair value	6 329			1 066	2 110	1	3 152
- held for trading	295 803	292 084					3 719
- held to maturity	5 345		5 345				
- available for sale	826 937		294 059	361 695	71 013	100 170	
Accounts receivable	154 722						154 722
Policy loans originated	2 630						2 630
Re-insurance assets	7 902						7 902
Investment in associate company	263						263
Deferred tax assets	33 803						33 803
Property and equipment	164 457						164 457
Investment property	6 000						6 000
Intangible assets	61 544						61 544
<b>Total assets</b>	<b>10 673 772</b>	<b>1 619 844</b>	<b>7 825 048</b>	<b>369 907</b>	<b>102 984</b>	<b>100 171</b>	<b>655 818</b>
<b>Liabilities and shareholders' funds</b>							
Deposit and current accounts	7 817 107	4 291 773	2 184 570	1 262 415	78 349		
Due to banks and other financial institutions	830 762	733 675	51 899	45 188			
Derivative financial instruments	33 019	33 019					
Creditors and accruals	152 413						152 413
Gross outstanding claims	444						444
Gross unearned premium	20 045						20 045
Provision for unintimated claims	1 854						1 854
Policyholder liabilities under insurance contracts	181 260						181 260
Policyholder liabilities under investment contracts	6 955						6 955
Post-retirement benefit fund liability	33 883						33 883
Tax liability	104 151						104 151
Deferred tax liability	17						17
Long-term liability	251 424	251 424					
Total equity	1 240 438						1 240 438
<b>Total equity and liabilities</b>	<b>10 673 772</b>	<b>5 309 891</b>	<b>2 236 469</b>	<b>1 307 603</b>	<b>78 349</b>		<b>1 741 460</b>
<b>Net interest sensitivity gap</b>		<b>(3 690 047)</b>	<b>5 588 579</b>	<b>(937 696)</b>	<b>24 635</b>	<b>100 171</b>	<b>(1 085 642)</b>

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	Carrying amount 2006	Interest earning/bearing - Term to repricing					Non-interest earning/bearing
		Demand	1 - 3 months	4 -12 months	1- 5 years	Over 5 years	
<b>33. Risk management (continued)</b>							
<b>33.5 Interest rate risk management</b>							
<b>Assets</b>							
Cash and short-term funds	208 174	70 673					137 501
Due from banks and other financial institutions	170 125	170 125					
Derivative financial instruments	39 420		39 420				
Advances classified as loans and receivables	7 861 541	1 275 937	6 572 586	4 588	8 430		
Investment securities and other investments							
- loans and receivables	47 146	10 263	36 883				
- held for trading	343 269	212 728	1 256	8 434	82 173	38 678	
- held-to-maturity	92 007	19 976	19 729	52 302			
- available- for- sale	484 122	20 271	110 452	338 865	14 534		
Accounts receivable	102 453						102 453
Policy loans originated	996		996				
Investment in associate company	253						253
Re-insurance assets	8 175			8 175			
Deferred tax assets	39 178						39 178
Property and equipment	157 938						157 938
Investment property	6 000						6 000
Intangible assets	70 813						70 813
<b>Total assets</b>	<b>9 631 610</b>	<b>1 779 973</b>	<b>6 781 322</b>	<b>412 364</b>	<b>105 137</b>	<b>38 678</b>	<b>514 136</b>
<b>Liabilities and shareholders' funds</b>							
Deposit and current accounts	7 811 924	3 962 140	2 979 161	867 834	2 789		
Due to banks and other financial institutions	124 224	124 224					
Derivative financial instruments	40 281		39 457	824			
Creditors and accruals	114 341						114 341
Gross outstanding claims	6 526						6 526
Gross unearned premium	16 482						16 482
Provision for unintimated claims	1 806						1 806
Policyholder liabilities under insurance contracts	143 112						143 112
Policyholder liabilities under investment contracts	4 194						4 194
Post-retirement benefit fund liability	30 225						30 225
Tax liability	982						982
Deferred tax liability	35 007						35 007
Total equity	1 302 506						1 302 506
<b>Total equity and liabilities</b>	<b>9 631 610</b>	<b>4 086 364</b>	<b>3 018 618</b>	<b>868 658</b>	<b>2 789</b>		<b>1 655 181</b>
<b>Net interest sensitivity gap</b>		<b>(2 306 391)</b>	<b>3 762 704</b>	<b>(456 294)</b>	<b>102 348</b>	<b>38 678</b>	<b>(1 141 045)</b>

# Notes to the Annual Financial Statements (continued)

## for the year ended 30 June

N\$ thousand	Carrying amount 2007	Interest earning/bearing - Term to maturity				
		Demand	1 - 3 months	4 -12 months	1- 5 years	Over 5 years

### 33. Risk management (continued)

#### 33.6 Liquidity risk management

The Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Group does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out on page 134 of the unaudited Risk Report.

The table below sets out the maturity analysis of the Group's balance sheet based on the remaining period from year-end to contractual maturity.

"Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

#### Assets

Cash and short-term funds	226 173	226 173				
Due from banks and other financial institutions	115 755	115 755				
Derivative financial instruments	22 307	15 438	1 010	5 179	680	
Advances classified as loans and receivables	8 726 203	1 180 638	308 436	465 596	2 013 514	4 758 019
Investment securities and other investments						
- loans and receivables	17 599		17 599			
- elected fair value	6 329					6 329
- held for trading	295 803	295 803				
- held to maturity	5 345		5 345			
- available for sale	826 937		280 519	358 591	78 679	109 148
Accounts receivable	154 722	136 133	11 969	6 620		
Policy loans originated	2 630			2 630		
Re-insurance assets	7 902			7 902		
Investment in associate company	263					263
Deferred tax assets	33 803				33 803	
Property and equipment	164 457					164 457
Investment property	6 000					6 000
Intangible assets	61 544				1 827	59 717
<b>Total assets</b>	<b>10 673 772</b>	<b>1 969 940</b>	<b>624 878</b>	<b>846 518</b>	<b>2 128 503</b>	<b>5 103 933</b>

#### Liabilities and shareholders' funds

Deposit and current accounts	7 817 107	3 927 355	2 548 988	1 262 415	78 349	
Due to banks and other financial institutions	830 762	830 762				
Derivative financial instruments	33 019	21 515	490	7 127	3 887	
Creditors and accruals	152 413	39 751	48 475	64 187		
Gross outstanding claims	444			444		
Gross unearned premium	20 045			20 045		
Provision for unexpired claims	1 854			1 854		
Policyholder liabilities under insurance contracts	181 260					181 260
Policyholder liabilities under investment contracts	6 955					6 955
Post-retirement benefit fund liability	33 883					33 883
Tax liability	104 151			104 151		
Deferred tax liabilities	17					17
Long-term liability	251 424			6 029		245 395
Total equity	1 240 438					1 240 438
<b>Total equity and liabilities</b>	<b>10 673 772</b>	<b>4 819 383</b>	<b>2 597 953</b>	<b>1 466 252</b>	<b>82 236</b>	<b>1 707 948</b>
<b>Net liquidity gap</b>		<b>(2 849 443)</b>	<b>(1 973 075)</b>	<b>(619 734)</b>	<b>2 046 267</b>	<b>3 395 985</b>

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	Carrying amount 2006	Interest earning/bearing - Term to maturity				
		Demand	1 - 3 months	4 -12 months	1- 5 years	Over 5 years
<b>33. Risk management (continued)</b>						
<b>33.6 Liquidity risk management (continued)</b>						
<b>Assets</b>						
Cash and short-term funds	208 174	208 174				
Due from banks and other financial institutions	170 125	170 125				
Derivative financial instruments	39 420	4 390	29 770	5 260		
Advances classified as loans and receivables	7 861 541	1 043 797	160 641	475 738	2 021 664	4 159 701
Investment securities and other investments						
- loans and receivables	47 146			10 263	36 883	
- held for trading	343 269			216 742	82 173	44 354
- held-to-maturity	92 007			92 007		
- available- for- sale	484 122			469 588	14 534	
Accounts receivable	102 453	25 418	11 464	65 571		
Policy loans originated	996		996			
Re-insurance assets	8 175			8 175		
Investment in associate company	253					253
Deferred tax assets	39 178				39 178	
Property and equipment	157 938					157 938
Investment property	6 000					6 000
Intangible assets	70 813					70 813
<b>Total assets</b>	<b>9 631 610</b>	<b>1 451 904</b>	<b>202 871</b>	<b>1 343 344</b>	<b>2 194 432</b>	<b>4 439 059</b>
<b>Liabilities and shareholders' funds</b>						
Deposit and current accounts	7 811 924	4 304 831	2 636 470	867 834	2 789	
Due to banks and other financial institutions	124 224	124 224				
Derivative financial instruments	40 281	24 254	15 203	824		
Creditors and accruals	114 341			114 341		
Gross outstanding claims	6 526		6 526			
Gross unearned premium	16 482			16 482		
Provision for unintimated claims	1 806			1 806		
Policyholder liabilities under insurance contracts	143 112					143 112
Policyholder liabilities under investment contracts	4 194					4 194
Post-retirement benefit fund liability	30 225					30 225
Tax liability	982			982		
Deferred tax liability	35 007				35 007	
Intercompany liability	1 302 506					1 302 506
<b>Total equity</b>						
<b>Total equity and liabilities</b>	<b>9 631 610</b>	<b>4 453 309</b>	<b>2 658 199</b>	<b>1 002 269</b>	<b>37 796</b>	<b>1 480 037</b>
<b>Net liquidity gap</b>		<b>(3 001 405)</b>	<b>(2 455 328)</b>	<b>341 075</b>	<b>2 156 636</b>	<b>2 959 022</b>

# Notes to the Annual Financial Statements (continued)

## for the year ended 30 June

N\$ thousand	Carrying amount	Fair value	Unrecognised losses
<b>33. Risk management (continued)</b>			
<b>33.7 Fair value of financial instruments</b>			
The following represents the fair values of financial instruments not carried at fair value on the balance sheet.			
<b>2007</b>			
<b>Assets</b>			
Advances classified as loans and receivables	8 726 203	8 725 002	(1 201)
	<b>8 726 203</b>	<b>8 725 002</b>	<b>(1 201)</b>
<b>2006</b>			
<b>Assets</b>			
Advances classified as loans and receivables	7 861 541	7 861 871	330
Investment securities			
- held-to-maturity	92 007	92 189	182
	<b>7 953 548</b>	<b>7 954 060</b>	<b>512</b>

Fair value has been determined as follows:

- advances - based on the discounted value of estimated future cash flows, based on current market rates;
- held-to-maturity investment securities - market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts - where there is no stated maturity, the amount repayable on demand - in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;
- all other financial assets and liabilities carried at amortised cost have short dated maturities and the fair values approximate the carrying value.

## 34. Related parties

The Group defines related parties as :

- The parent company
- Subsidiary companies
- Associate companies
- Key management personnel of the FNB Namibia Holdings Ltd and its subsidiaries board of directors and the Group executive committee.  
Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include the individual's spouse/domestic partner and children, domestic partner's children and dependants of individual or domestic partner.
- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies

The ultimate parent of FNB Namibia Holdings Limited is FirstRand Limited, incorporated in South Africa.

FNB Namibia Holdings Limited is listed on the Namibian Stock Exchange and is 59.2% owned by FirstRand Bank Holdings Limited, with its ultimate holding company listed on the JSE Limited and the NSX, FirstRand Limited.

### 34.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 18.

Transactions with fellow subsidiaries appear in the table below (these are not eliminated on consolidation).

### 34.2 Associate

Details of investments in associate companies are disclosed in note 17.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	FirstRand Bank Ltd RMB Corporate Finance Division	FNB of Swaziland Ltd	FirstRand Bank Ltd	RMB International Dublin Ltd	Namclear (Pty) Ltd
<b>34. Related parties (continued)</b>					
<b>34.3 Details of transactions with relevant related parties appear below:</b>					
<b>2007</b>					
Transactions with entities outside the FNB Namibia Group:					
<b>Loans and advances - unsecured</b>					
Balance 1 July	103 269		21 081		
Issued during year	(74 157)			143 400	
Repayments during year			(21 060)	(143 400)	
Balance 30 June	29 112		21		
<b>Interest received</b>					
			33 582	3 629	
<b>Deposits</b>					
Balance 1 July		(50 000)	(2 891)		
Received during year	(15 779)				
Repaid during year		50 000	(162 432)		
Balance 30 June	(15 779)		(165 323)		
<b>Interest paid</b>					
		(532)			
<b>Derivative instrument: Currency swap asset</b>					
			3 344		
<b>Derivative instrument: Currency swap liability</b>					
			(11 684)		
<b>Dividends paid</b>					
			209 007		

Loans are unsecured and there are no fixed repayment terms. These amounts are settled through intercompany accounts and carries interest at market related rates.

N\$ thousand	Total	FirstLink Insurance Brokers Namibia (Pty) Ltd	Namclear (Pty) Ltd	FirstRand Bank Ltd
<b>Non-interest income</b>				
Commission	4 242	2 463		1 779
FNB Card reward	8 279			8 279
Policy fees	588	588		
Rental income	488		488	
	13 597	3 051	488	10 058
<b>Non-interest expenditure</b>				
Computer processing costs	15 524			15 524
Internal audit and compliance	1 174			1 174
ATM processing costs	625			625
Payroll processing	983			983
Management fees	4 102			4 102
Other sundry	12 345			12 345
Clearing cost	5 948		5 948	
	40 701		5 948	34 753

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	FirstRand Bank Ltd RMB Corporate Finance Division	FNB of Swaziland Ltd	FirstRand Bank Ltd	RMB International Dublin Ltd	Namclear (Pty) Ltd
<b>34. Related parties (continued)</b>					
<b>34.3 Details of transactions with relevant related parties appear below: (continued)</b>					
<b>2006</b>					
Transactions with entities outside the FNB Namibia Group:					
<b>Loans and advances - unsecured</b>					
Balance 1 July	201	7			6 467
Issued during year	103 068		21 081	303 072	
Repayments during year		(7)		(303 072)	(6 467)
Balance 30 June	103 269		21 081		
<b>Interest received</b>	1 188			238	
<b>Deposits</b>					
Balance 1 July	(75)		(504 387)		
Received during year		(50 000)			
Repaid during year	75		501 496		
Balance 30 June		(50 000)	(2 891)		
<b>Interest paid</b>	8 565	2 026			
<b>Derivative instrument: Currency swap asset</b>			5 097		
<b>Derivative instrument: Currency swap liability</b>			(2 823)		
<b>Dividends paid</b>			51 870		

N\$ thousand	Total	Namclear (Pty) Ltd	FirstRand Bank Ltd
<b>Non-interest income</b>			
Commission	2 930		2 930
FNB Card reward	5 043		5 043
Rental income	448	448	
	8 421	448	7 973
<b>Non-interest expenditure</b>			
Computer processing costs	20 744		20 744
Internal audit and compliance	882		882
ATM processing costs	515		515
Payroll processing	1 071		1 071
Other sundry	6 950		6 950
Clearing cost	6 548	6 548	
	36 710	6 548	30 162



# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	Talas Properties (Windhoek) (Pty) Ltd
<b>34. Related parties (continued)</b>	
<b>34.3 Details of transactions with relevant related parties appear below: (continued)</b>	
<b>Transactions with entities within FNB Namibia Group:</b>	
All loans and income and expenditure items have been eliminated on consolidation. Swabou Life Assurance Company Ltd and Swabou Insurance Company Ltd from time to time invest in deposit instruments issued by First National Bank of Namibia Limited. These assets are acquired at market rates in accordance with group accounting policy.	
At 30 June 2007 Swabou Life Assurance Company Ltd reflected assets with First National Bank of Namibia Ltd of N\$21million (2006: N\$37million). These investments are acquired to back liabilities to policyholders under unmatured policies and are not eliminated upon consolidation.	
<b>Balances in Company:</b>	
<b>Balances and transactions in 2007</b>	
<b>2007:</b>	
<b>Loans and advances</b>	
Balance 1 July	93 910
Issued during year	32 734
Received during the year	(124 782)
Balance 30 June	1 862
Interest paid	(178)
<b>2006:</b>	
<b>Loans and advances</b>	
Balance 1 July	3 480
Issued during year	90 430
Received during the year	93 910
Balance 30 June	93 910
<b>Deposits</b>	
Balance 1 July	(4 594)
Received during the year	(817)
Repaid during the year	5 411
Balance 30 June	31
Interest paid	31

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand

2007

2006

## 34. Related parties (continued)

### 34.4 Transactions with key management personnel:

#### Advances

Balance 1 July	18 510	14 751
Issued during year	23 489	26 700
Repayments during year	(6 441)	(24 822)
Interest earned	2 741	1 881
Balance 30 June	38 299	18 510

No impairment has been recognised for loans granted to key management (2006: nil). Mortgage loans are repayable monthly over 20 years. These loans are collateralised by properties with a total fair value exceeding the amount outstanding.

#### Cheque and current accounts

Balance 1 July	(8 594)	2 373
Net deposits and withdrawals	3 003	(11 474)
Net service fees and bank charges	1 006	696
Interest income	438	166
Interest expense	(1 771)	(355)
Balance 30 June	(5 918)	(8 594)

#### Instalment finance

Balance 1 July	2 946	1 341
Issued during year	1 449	2 194
Repayments during year	(1 333)	(1 055)
Interest earned	261	466
Balance 30 June	3 323	2 946

#### Life and disability insurance

Aggregate insured cover	2 460	1 824
Premiums received	16	5

#### Investment products

Opening balance		
Deposits	5 283	
Net investment return	167	
Commission and other transaction fees	(38)	
Fund closing balance	5 412	

#### Shares and share options held

Directors holding in shares is disclosed in note 9.3

#### Aggregate details

Share options held	1 259	707
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# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand

	2007	2006
<b>34. Related parties (continued)</b>		
<b>34.4 Transactions with key management personnel: (continued)</b>		
<b>Key management compensation</b>		
Salaries and other short-term benefits	8 668	6 713
Contribution to defined contribution schemes	500	522
Total compensation	9 168	7 235
Termination benefits paid		68
	9 168	7 303

Included above are the contributions to the defined contribution plan of key management: N\$1 million (2006: N\$0.5 million).

Refer to note 9.3 for details on share option costs.

A listing of the board of directors of the Group is detailed on page 43 of the annual report.

## 34.5 Post employment benefit plan

Refer note 27.1 on detail disclosure of the movement on the post-retirement medical liability. The pension fund is a related party to the Group, refer note 27.2.

One member of key management is entitled to the post-employment medical benefit and contributions will only be made on retirement. The liability raised for post-retirement medical benefits includes this member.

## 35. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to N\$596.4 million (2006: N\$162.3 million).

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousands	Total		Banking operations		Life Assurance		Short-term Insurance		Other*	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>36. Segment information</b>										
<b>Primary segments</b>										
<b>Income statement</b>										
Net interest income before impairment of advances	611 039	483 945	604 095	479 165	10 767	7 563	1 448	1 392	(5 271)	(4 175)
Impairment losses on loans and advances	(67 767)	(29 278)	(67 767)	(29 278)						
Net interest income after impairment of advances	543 272	454 667	536 328	449 887	10 767	7 563	1 448	1 392	(5 271)	(4 175)
<b>Non interest income</b>	378 793	343 760	308 182	288 981	58 151	42 461	7 305	8 350	5 155	3 968
- Fee and commission income	285 298	242 217	271 274	232 808	921	1 067	3 492	4 272	9 611	4 070
- Fair value income/(losses)	7 868	39 782	7 868	39 782			3 813	4 078	(3 813)	(4 078)
- Gains less losses from investment securities	68 074	48 583	2 891	423	56 691	40 932			8 492	7 228
- Other non-interest income/(losses)	17 553	13 178	26 149	15 968	539	462			(9 135)	(3 252)
<b>Net insurance premium income</b>	120 231	108 169			93 737	82 180	26 494	25 989		
Insurance premium revenue	150 979	143 938			101 891	92 441	49 088	51 497		
Premium ceded to reinsurers	(28 434)	(33 018)			(8 154)	(10 261)	(20 280)	(22 757)		
Change in unearned premium	(2 314)	(2 751)					(2 314)	(2 751)		
<b>Net claims and benefits paid</b>	(44 041)	(42 451)			(29 339)	(24 894)	(14 702)	(17 557)		
Gross claims and benefits paid on insurance contracts	(54 325)	(57 065)			(31 506)	(28 299)	(22 819)	(28 766)		
Re-insurance recoveries	10 284	14 614			2 167	3 405	8 117	11 209		
Transfer to policyholder liabilities under insurance contracts	(38 148)	(36 913)			(38 148)	(36 913)				
Fair value adjustment to policyholder liabilities under investment contracts	(83)	1 750			(83)	1 750				
Fair value adjustment to financial liabilities	8 432		8 432							
Income from operations	968 456	828 982	852 942	738 868	95 085	72 147	20 545	18 174	(116)	(207)
Operating expenses	(521 088)	(454 490)	(480 286)	(426 028)	(43 410)	(35 567)	(14 597)	(18 149)	17 205	25 254
Net income from operations	447 368	374 492	372 656	312 840	51 675	36 580	5 948	25	17 089	25 047
Share of profit of associate companies	(229)	(2 500)	(1 029)	(3 125)	520	537			280	88
Profit before indirect tax	447 139	371 992	371 627	309 715	52 195	37 117	5 948	25	17 369	25 135
Indirect tax	(12 579)	(12 992)								
Profit before direct tax	434 560	359 000								
Direct tax	(130 212)	(102 029)								
Profit for the year	304 348	256 971								

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousands	Total		Banking operations		Life Assurance		Short-term Insurance		Other*	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>36. Segment information (continued)</b>										
<b>Income statement (continued)</b>										
Reconciliation to headline earnings based on after tax segmental profits:										
Earnings attributable to ordinary shareholders:	303 241	255 640	238 846	199 023	49 556	34 984	4 440	(834)	10 399	22 467
Less: profit on sale of property and equipment	(427)	(858)	(359)	(868)	(29)	(1)	(39)	11		
Less: impairment on property and equipment		(251)		(251)						
Less: profit on revaluation of investment property		(678)		(678)						
Less: Realised income from available for sale financial assets	(3 845)	(2 789)	(1 879)	(275)			(1 966)	(2 514)		
Headline earnings	298 969	251 064	236 608	196 951	49 527	34 983	2 435	(3 337)	10 399	22 467
<b>Income statement includes</b>										
Depreciation	9 875	18 545	11 784	17 076	49	227	310	889	(2 268)	353
Amortisation	15 102	7 846	30 066	30 972					(14 964)	(23 126)
Impairment charge		386		386						
	24 977	26 777	41 850	48 434	49	227	310	889	(17 232)	(22 773)
Intersegmental transactions included in segmental results and eliminated on consolidation **:										
Non-interest revenue										
- Royalties received	723	2 111	723	2 111						
- Rental received	643	1 379	643	1 379						
Operating expenses										
- Royalties paid	(723)	(2 111)					(1 364)	(723)	(747)	
- Rental paid	(643)	(1 379)			(99)	(864)	(544)	(515)		
<b>Balance sheet includes</b>										
Segment assets	10 673 772	9 631 610	10 523 851	9 300 862	342 808	251 364	53 890	57 927	(246 777)	21 457
Segment liabilities	9 433 334	8 329 104	9 217 222	8 120 154	210 759	159 871	31 322	37 729	(25 969)	11 350
Advances (after ISP, before provisions)	8 928 568	8 028 555	8 970 022	8 015 578					(41 454)	12 977
Non-performing loans	244 349	247 313	244 349	247 313						
Capital expenditure incurred	18 091	21 338	18 485	20 326	393	95	16	67	(803)	850

\* The segment called "Other" includes head office charges and other Group companies.

\*\* Intersegmental transactions are concluded at the market value.

# Notes to the Annual Financial Statements (continued)

## for the year ended 30 June

### 37. Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) Credit impairment losses on loans and advances

The Group assesses its credit portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

#### For purposes of these judgements the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail portfolio the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of "high risk" accounts, based on internally assigned risk ratings and management judgement, are used.

A portfolio specific impairment (PSI) calculation to reflect the decrease in estimated future cash flows is performed for this sub-segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. A so-called incurred-but-not-reported (IBNR) impairment is calculated on this sub-segment of the portfolio, based on historical analysis of loss ratios, roll-rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period. Estimates of roll-rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 - 12 months.

#### Non-performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. Wesbank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to note 13 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

#### (b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

Refer to note 11 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments.

#### (c) Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and recognised as such in the income statement, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Banking Group evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group determined that the impairment of available-for-sale equity instruments were not appropriate for the year under review.

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

## 37. Critical accounting estimates, and judgements in applying accounting policies (continued)

### (d) Held to maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires considerable judgement. In making this judgement, the Banking group evaluates its intention and ability to hold such investments to maturity. If the Banking Group fails to keep these investments to maturity other than for specific circumstances defined by the Banking Group it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortised cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by N\$ NIL (2006: N\$0.2 million) with a corresponding entry in the available-for-sale reserve in shareholders' equity.

### (e) Income taxes

The Group is subject to direct tax in Namibia. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Banking Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Refer to note 8 for more information regarding the direct and deferred tax charges, assets and liabilities.

### (f) Financial risk management

The Group's risk management policies are disclosed in the unaudited Risk Report on pages 132 to 136 of the annual report. The repricing analysis in note 33 forms part of the audited annual financial statements.

### (i) Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash-generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in notes to these financial statements.

### (j) Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

Additional information is provided in the note 27.

### (k) Share-based payments

Share-based payment costs arise from the issue of share options to employees. These share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero-coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 9.3 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

**(l) Critical assumptions relating to Policyholder liabilities are detailed in note 25 and note 26.**

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

N\$ thousand	30 June 2007			30 June 2006		Income expense
	Average balance	Average rate %	Interest income	Average balance	Average rate %	
<b>38. Average balance sheet and effective interest rates</b>						
<b>Assets</b>						
Cash and short-term funds	90 085	2.71	2 437	223 126	1.09	2 428
Due by banks and other financial institutions	772 901	6.44	49 763	128 863	2.99	3 855
Derivative financial instruments	429			1 301		
Advances classified as loans and receivables	8 745 384	12.37	1 081 526	7 247 875	11.88	861 248
Investment securities and other investments	783 634	9.95	77 966	907 436	6.40	58 089
Accounts receivable (including policy loans and reinsurance assets)	412 406			88 563		
Investment in associate companies	18			6 485		
Deferred tax assets	38 562					
Investment property, property and equipment	163 340			165 079		
Intangible assets	41 077			70 629		
<b>Total Assets</b>	<b>11 047 836</b>	<b>10.97</b>	<b>1 211 692</b>	<b>8 839 357</b>	<b>10.47</b>	<b>925 620</b>
<b>Liabilities and shareholders' funds</b>						
<b>Liabilities</b>						
Deposits	8 084 042	7.01	566 772	7 218 251	5.93	428 139
Due to banks and other financial institutions	1 078 615	2.58	27 865	128 520	10.53	13 536
Derivative financial instruments	414			562		
Creditors and accruals (including insurance payables)	117 625			97 885		
Policyholder liabilities	197 168			142 589		
Post retirement benefit fund liability	34 425			28 518		
Taxation liability	103 856			3 506		
Deferred tax liabilities				22 646		
Long-term liability	264 011	2.28	6 016			
<b>Total liabilities</b>	<b>9 880 156</b>	<b>6.08</b>	<b>600 653</b>	<b>7 642 477</b>	<b>5.78</b>	<b>441 675</b>
<b>Total equity</b>	<b>1 167 680</b>			<b>1 196 880</b>		
<b>Total equity and liabilities</b>	<b>11 047 836</b>	<b>5.44</b>	<b>600 653</b>	<b>8 839 357</b>	<b>5.00</b>	<b>441 675</b>

Due to the nature of the Company's business, no average balance and related interest disclosure is provided.

Standards

Effective date

## 39. Standards and interpretations issued but not yet effective

The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.

IFRS 7	<p><b>Financial instruments: Disclosure (including amendments to IAS 1 - Presentation of financial statements: Capital disclosures)</b></p> <p>This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in potentially more disclosure than that currently provided in the Group's financial statements.</p> <p>The Group does not intend to adopt this standard early.</p>	<p>Annual periods commencing on or after 1 January 2007</p>
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# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

Standards		Effective date
<b>39. Standards and interpretations issued but not yet effective (continued)</b>		
IFRS 8	<p><b>Operating Segments</b></p> <p>IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources in assessing performance.</p> <p>The Group does not intend to adopt this standard early.</p>	Annual periods commencing on or after 1 January 2009
IFRIC 10	<p><b>Interim Financial Reporting and Impairment</b></p> <p>This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements.</p> <p>The amendment will not have a significant impact on the Group's interim results.</p>	Annual periods commencing on or after 1 November 2006
IFRIC 11	<p><b>IFRS 2 - Group and Share Incentive Trust Transactions</b></p> <p>IFRIC 11 clarifies the application of IFRS 2 Share-Based Payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. This interpretation is not expected to have a significant effect on the Group's results.</p>	Annual periods commencing on or after 1 March 2007
IFRIC 12	<p><b>Service Concession Arrangements</b></p> <p>The interpretations addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services.</p> <p>This interpretation is not applicable to the Group.</p>	Annual periods commencing on or after 1 January 2008
IAS 23 Amendment	<p><b>Borrowing Costs</b></p> <p>The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required.</p> <p>However, it does not require the capitalisation of borrowing costs relating to assets measured at fair value and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.</p> <p>The Group 's accounting policy is to capitalise borrowing costs on a qualifying asset. The amendment will therefore not have an effect on the Group's results.</p>	Annual periods commencing on or after 1 January 2009.
IFRIC 13	<p><b>Customer Loyalty Programmes</b></p> <p>The interpretation requires entities to allocate some of the proceeds of the initial sale of the award credits (such as "points" or travel miles) and recognise these proceeds as revenue only when the entity has fulfilled its obligations. An entity may fulfil its obligation by supplying awards themselves or engaging a third party to do so.</p>	Annual periods commencing on or after 1 July 2008
IFRIC 14 IAS 19	<p><b>The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</b></p> <p>This interpretation clarifies that an additional liability need not be recognised by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the company.</p>	Annual periods commencing on or after 1 January 2008

# Notes to the Annual Financial Statements (continued)

for the year ended 30 June

NS\$ thousand	June 2006 As restated	June 2006 As previously presented	Reclassification
<b>40. Restatement of prior year amounts due to improved classification:</b>			
Certain balances as at 30 June 2006 were restated in the current year to allow for improved classification. These re-classifications do not change the profit before taxes or the taxation charge, and hence, only gross amounts are disclosed below. The changes on the face of the income statement, balance sheet and cash flow statement are detailed below:			
<b>GROUP</b>			
<b>Income statement</b>			
Interest expenses and similar charges	(441 675)	(441 236)	(439)
Fee and commission income	242 217	238 934	3 283
Fee and commission expense		(22 242)	22 242
Fair value income	39 782	35 789	3 993
Other non-interest income	13 178	12 717	461
Operating expenses	(454 490)	(424 950)	(29 540)
Net effect of re-classifications			(439)
<b>Balance sheet</b>			
Cash and short term funds	208 174	276 530	(68 356)
Due by banks and other financial institutions	170 125		170 125
Advances classified as loans and receivables	7 861 541	7 963 310	(101 769)
Deposits and current accounts	(7 811 924)	(7 936 148)	124 224
Due to banks and other financial institutions	(124 224)		(124 224)
<b>Cash flow statement</b>			
<b>Net cash inflow from operating activities</b>			
Net fee and commission income		216 692	(216 692)
Other non-interest income	296 414	54 034	242 380
Interest expenditure	(441 675)	(441 236)	(439)
Total other operating expenditure	(413 394)	(383 854)	(29 540)
Net effect of re-classifications			(4 291)
<b>Change in income earning assets and liabilities</b>			
Investment securities	(76 953)	(81 244)	4 291
Due by banks and other financial institutions	(170 125)		(170 125)
Advances classified as loans and receivables	(1 207 143)	(1 308 912)	101 769
Cash and cash equivalents	208 174	276 530	68 356
Net effect on cash flow statement			4 291